REGATRACE
Renewable Gas Trade Centre in Europe

# D6.4 | Guidance for feasibility analysis covering biomethane investment projects – Estonia

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# Abbreviations

| | |
|---|---|
| AD | Anaerobic Digestion |
| CHP | Combined Heat and Power |
| CO2 | Carbon Dioxide |
| DM | Dry Matter |
| DSCR | Depth Service Coverage Ratio |
| EBA | European Biogas Association |
| EBITDA | Earnings Before Interest, Taxes, Depreciation and Amortization |
| EBIT | Earnings Before Interest and Taxes |
| ETS | Emission Trading System |
| FM | Fresh Mass |
| GHG | Green House Gas |

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# REGATRACE in a Nutshell

REGATRACE (REnewable GAs TRAde Centre in Europe) aims to create an efficient trade system based on issuing and trading biomethane/renewable gases certificates/Guarantees of Origin (GO) with exclusion of double sale. This objective will be achieved through the following founding pillars:

- European biomethane/renewable gases GO system.
- Set-up of national GO issuing bodies.
- Integration of GO from different renewable gas technologies with electric and hydrogen GO systems.
- Integrated assessment and sustainable feedstock mobilisation strategies and technology synergies
- Support for biomethane market uptake
- Transferability of results beyond the project's countries

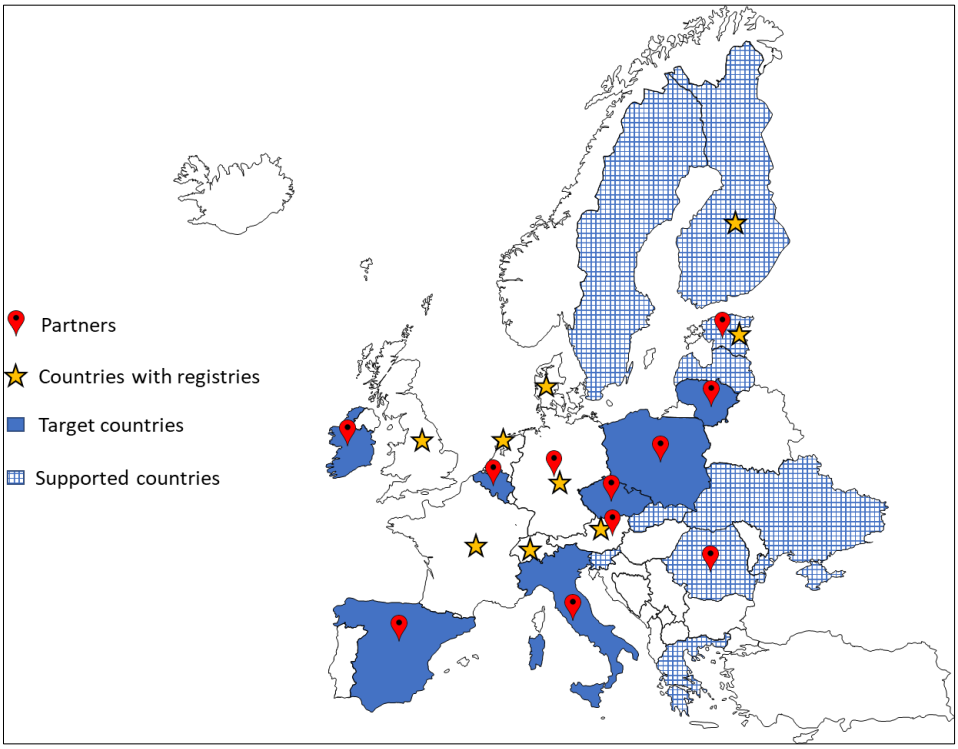


*Figure 1: REGATRACE countries and partners*

# The purpose of this document

This paper has been produced by the European Biogas Assocation in colaboration with Estonian Biogas Association (MTUEBA) under the Work Pacakge 6 of the REGATRACE project (www.regatrace.eu). The Guidance for feasibility analysis covering biomethane investment projects is designed to assist project developers in realising biomethane investment projects based upon the analysis of political, economic, technical, environmental, route to market (on

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or off grid), optimal scale and financial factors influencing the feasibility of the biomethane investment projects.

The document is based on a general guidance on European level and tailored with country specific information by the national biogas association in view of the specific circumstances prevailing in the country. The general guidance has been translated and adapted to local circumstances for enabling direct usage by interested parties in the country. The draft results of the feasibility analysis specific for the country were presented during the third participatory workshop in the REGATRACE project and later – in view of their consolidation – was finally presented during the fourth participatory workshop.

This paper contains **The Example** of cash flow calculations for an **imaginary** biomethane plant with **imaginary** numbers. The related numbers shown in the text and in tables have no practical meaning, they serve exclusively illustration purposes and must not be used as a reference in any case.

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# 1 What is a feasibility study?

As the name implies, a feasibility analysis is used to determine the viability of a project idea, ensuring that the project is legally and technically feasible as well as economically justifiable. The feasibility study answers the basic question whether the project is worth the investment. In some cases, a project may not be viable. There can be many reasons for this, including requiring too many resources, which not only prevents those resources from performing other tasks but also may cost more than the investing company/organization would earn by realising a project that is not profitable.

A well-designed feasibility study should offer a comprehensive review of the background of the project, the description of the manufacturing processes, the quality and market of the final products, details of operations and management, estimated future market developments, commercialisation of bio fertilisers, monetising of soil carbon sequestration [carbon credits], other bio actives, protein extraction and policies such as Renewable Heat Obligation Scheme, expected financial data, legal requirements, and tax obligations. Generally, the feasibility studies precede technical development, business planning and project implementation.

A feasibility analysis evaluates the project's potential for success, its perceived objectivity is an essential factor in the credibility of the study both for potential investors and lending institutions.

A feasibility study is a study, which is performed by a company/organization to evaluate whether a specific action (investment, acquisition, etc.) makes sense from economic and/or operational standpoint. The objective of the study is to test the feasibility of the specific action and to determine and define any issues that would argue against realising it.

The question a feasibility study should answer is simple: "*Should we proceed with the specific investment project?*" In addition to determining whether the planned project is viable, organizations can use a feasibility study also for understanding the implied risks better.

It is important to remember that a feasibility study is not the same as a business plan. A business plan provides a planning function and defines the actions needed to take a business idea into reality, whereas a feasibility study provides an investigation into a specific investment project under consideration and whether the project is viable.

While it is important to conduct both plans before realising the action, a business plan should only be conducted once the investment project has been deemed viable by a feasibility study.

**This Guideline is providing general assistance for conducting feasibility studies for biomethane investment decisions**. The main purpose of such feasibility studies is to support/enable.

- taking investment decisions aimed at establishing new biomethane production and
- securing the necessary financing.

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# 2 Where can the Feasibility study be used?

**For investing into new biomethane production facilities two substantially different pathways** can be followed:

- expansion of existing anaerobic digestion installation with addition of an upgrading facility (potentially also increasing the raw biogas production),
- investment into new, „green field" complex consisting of anaerobic digestion and biogas upgrading.

This Guidance addressed the issues related to both above mentioned pathways but does not deal with acquisition of already existing and operating biomethane producing installations. The reason for not addressing acquisitions is that in case of existing production the acquisition decision is taken based on actual operational and financial data (cash flow) and not on a general feasibility study.

The primary purpose of a feasibility study is to provide reliable [well-based] data and information to the project developers about the conditions of the project. Subsequently, based upon this analysis the project developers can approach the potential investors and financing institutions.

The feasibility studies assist the project developers also in their communication with the respective authorities, politicians, socio-economic benefits, and impacted communities in securing their support for the project. For this purpose, the study must address in detail the potential risks and the expected concerns by the involved parties.

# 3 Core elements of a Feasibility study

## 3.1 Technical feasibility

The first element deals with technical feasibility of the proposed investment, the technical feasibility study will determine if it's a technically viable action.

This part of the feasibility study should answer – for example – the following questions:

- *What raw materials (substrates) are available at what conditions for the anaerobic digestion unit?*
- *Sustainability of agri feedstock substrate?*
- *What is the most appropriate technology to process the raw materials (yields, material balances, etc.)?*
- *What will be the volumes and characteristics of the main product (biomethane) and the by-products (digestate, carbon dioxide, etc)?*
- *What are the regulatory standards surrounding the main product, the by-products, and their use?*
- *What investments are needed for realising the production?*
- *How will the energy consumption of the facility be covered (energy balances, etc.)?*
- *What are the technical conditions for grid connection?*

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- *What are the considerations and conditions for the site selection?*

The above questions can be used both in case of transforming an existing biogas plant to a biomethane producing facility and in case of a new, green-field investment.

## 3.2 Market feasibility

The second element focuses on understanding the market environment for the proposed investment. It examines issues like whether the main product (biomethane) and the by-products can be placed on the market at reasonable prices or if there is a marketplace for them at all. Regarding renewable energy projects (among them biomethane investment projects) the available national support schemes are of crucial importance.

Market feasibility should answer – for example – the following questions:

- *What market segments are targeted (transport fuel, heating, industry)?*
- *Who are the potential customers and how many of them are there?*
- *How will biomethane and the by-products be sold?*
- *What are the available support schemes and what are the conditions for participating?*
- *Are there realistic export possibilities?*
- *What are the prices and conditions for external energy supplies?*
- *What are the costs of raw material supplies, is there a competition for raw materials?*

Market feasibility is a very important part of a feasibility study when an investment into new production is planned.

## 3.3 Commercial feasibility

Commercial feasibility is an element of the study focused on the probability of commercial (economic) success. It is mainly focused on studying whether the planned investment can be financed and whether it can generate enough income and profit.

The questions that require answering as part of the commercial feasibility study include, for example:

- *What are the potential sales volumes in different segments?*
- *What is the pricing structure applicable on the market?*
- *How far is the feasibility dependent on state aid (financial support)?*
- *What are the sensitivity points for the business in terms of revenues?*
- *What are the expected financial indicators of the investment project (IRR, NPV, PI, DSCR)?*
- *How much own funds are required to realise the investment and start operating?*
- *What are the conditions for securing external finance?*

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### 3.4 Overall risk assessment

The fourth element focuses on the major risks the proposed investment plan can entail. The overall risk assessment part of a feasibility study examines the different ways the project company (the investor) can reduce the risk of embarking on the new venture.

The overall risk assessment should answer the following questions:

- *What are the major risks associated with the operation?*
- *What is the survival outlook for each of the above risks?*
- *Merits of a National co-ordination and design authority to support ongoing and continuous improvements to AD biomethane developers, market exploitation, new products/innovative technology research, management support services?*
- *How sensitive are the profits?*
- *What are the best ways to minimize these risks?*

The aim is to try to cover all the possibilities and create a risk assessment map, which deals with the probability of the risk and the impact it would have on the project. It's aimed at recognizing the risks that can make or break the project from the smaller, more manageable risks.

## 4 Key factors for successful project development

The different (political, technical and financial) factors influencing the feasibility of biomethane production are addressed in several chapters of this paper. Here we place only a short summary to assist the reader on focusing on the main issues.

- Bridging the funding gap between the prevailing natural gas prices and the costs of biomethane production is the biggest challenge for every biomethane project. Measures can and should be taken to lower the costs of investment and operation as much as possible, but the business plans must not assume that achieving natural gas parity is only a question of time. The biomethane projects remain dependent on political support **stable, long-term political commitment** towards renewable energy deployment and – specifically – towards utilisation of biodegradable feedstock for biogas/biomethane production.
- Among the operational costs of biomethane production the **costs of raw material supplies** have a decisive importance. The project developers must assess the present and future biodegradable [raw] material supply possibilities very carefully and should elaborate alternative plans to handle any disruption. If possible, it is advisable, that the owners of raw materials (for example agricultural producers, food/beverage industry or waste management companies) are involved in the biogas/biomethane projects as shareholders – to secure their long-term interest in backing-up the venture, under pinned by off take agreement for biomethane.

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- Project developers should never assume that the raw material supply patterns remain unchanged through the 15-20-25 years lifetime of the project. It is strongly advisable to install **technologies** which have the needed flexibility to adjust to changes in raw material composition. Under these considerations the basic engineering plan of the facility must foresee place/connections for adding equipment in the future, detail design preconstruction.
- In any case, **locations** offering guaranteed long-term sustainable substrate supplies must be preferred. The best chances are on places where the feedstock is co-located with infrastructure, deep integration to respective agricultural or industrial activities is possible (for example: co-location of animal slurries/manures, sugar factories, breweries, etc.). The distance to an existing gas grid must be carefully evaluated. Also, the consumption in certain gas grid section in certain time could be analysed, because usually the gas flows only towards one direction, from higher pressure section towards lower pressure. Secondly, the timing, e.g., off heating season the gas consumption in this particular grid section could be lower, than the capacity of the biomethane plant. So, when assessing the distance to the natural gas grid, it is advisable also to assess the consumption, including seasonal consumption, of the gas in the grid to ensure that the consumption is higher than production.
- Organic **waste streams** (collected source separated) offer good possibilities for installing biogas/biomethane facilities but only if the future competition with other biogas/biomethane plants for the material can be avoided [excluded]. (The experience shows that the gate fees paid by organic waste owners tend to decrease and even disappear with the increasing number of biogas plants in the region.)
- Mature and efficient anaerobic digestion and biogas upgrading technologies are available from several technology suppliers. There is a strong competition among these companies today which puts investors in good negotiating position. With selection of **proven and reliable technology** future operational difficulties can be avoided. It happens quite often that the investors focus too much on the purchase price and do not consider other important elements, like the performance guarantees and operational support services offered by the supplier(s). These should be negotiated as part of the initial package and where possible consider "Clustering of AD plants" in negotiating Capex and O&M contracts.
- The **long-term placement [biomethane purchase agreement – BPABPA]** of produced biomethane must be secured from the start in view of underpinning the project, the existing political priorities, and financial incentives. From this viewpoint regions with developed CNG-LNG fuelled transportation are especially attractive. Long-term supply agreements with companies distributing gas for heating can also serve as a solid base for an investment decision. A successful and bankable BPA can be secured either thanks to a feed-in-tariff or feed-in-premium systems, or a

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biofuels quota system where obligated parties have an incentive to commit purchasing biomethane long-term avoiding paying penalties.

- The **placement of the fermentation residue [digestate or bio fertilisers]** from the anaerobic digestion is a key issue of any successful biomethane project. As a function of local agricultural conditions, digestate can be a revenue although minimal, or a cost to the biomethane plant, depending on the value of organic fertiliser, the possible contaminants to be eliminated, possible local excess of nitrogen in the soil etc. The residue is usually separated into a solid and a liquid fraction. The solid fraction can be used as organic fertiliser and – as such may even have a market value. The liquid fraction causes no problem if sufficient cultivated arable land is available in the vicinity of the biogas plant for spreading it on the fields or further processed as a bio active/stimulant. In absence of such possibility the liquid fraction needs to be processed, i.e., cleaned to a status accepted for letting it out into the nature. Such treatment of the fermentation residue triggers extra investment and operational costs, which may have a negative impact (5-10€/t) on the feasibility of the venture.
- The **liquefaction of biomethane** can prove to be an interesting alternative, either because the gas grid connection is too costly/too weak to offtake the gas, or because the off takers are ready to pay a premium for bio-LNG which is the form of biomethane offering best storage options for maritime & heavy trucking. This deserves to be studied for plants above 500 $Nm^3/h$ to afford the significant extra capex/opex which amounts to 10-15€/MWh.
- **Good communication to local stakeholders** is key to prevent NIMBY issues, especially in densely populated areas. Studying and communicating the positive impacts of the biomethane plant is relevant herein, such as job creation, economic value creation in rural territories, chemical fertilisers avoided, waste treated etc. Furthermore, transparent communication about odour and traffic control is advisable.
- In the bigger biomethane plants also the **$CO_2$ after purification of the biogas can be commercialized.** After additional cleaning it can achieve the quality needed in food industry.

# 5 CASE B – converting an electricity generating AD plant to a biomethane producer

This Guideline is focusing on the feasibility of a “green-field” biomethane investment project. Nevertheless, biomethane investment may take place in an existing biogas plant, which has been generating electricity in local CHP, but the FIT/FIP period has expired and producing electricity in not economic anymore.

A feasibility study in this case is also necessary to determine the expected economics and provide the base for securing the financing, taking bank credit to cover the additional investment costs.

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Regarding adding an upgrading unit to the existing AD unit, the technical project should address – among others – the following questions:

- which revamping measures are necessary to extend the lifetime of the AD unit?
- is it possible to increase the biogas production capacity?
- if yes, which additional investments are needed in the AD unit (e.g., for receiving the additional substrates, adding pre-treatment/mixing, pumping capacity, etc.)?
- is the existing biogas desulphurisation solution acceptable for the upgrading unit or new desulphurisation unit must be installed?
- is there sufficient space available for installing the upgrading unit (space limitation may influence the selection of the upgrading technology)?
- which part of the electricity generation equipment (CHP) will remain in operation to supply electricity to both the AD and upgrading units?
- what are the technical conditions for natural gas grid connection on the location (pressure, etc.)?

Contrary to the case with a green-field new biogas + upgrading project the feasibility study for the conversion project may apply the series of practical data generated during the operation of the AD unit, such as actual substrate costs, biogas yields, biogas quality, energy consumption, digestate quality and placement, achieved full-load operating hours etc. This is very important while banks are usually concerned about the so called “biological risk”, i.e. the risk of proper functioning of the biological system in the digesters.

The financing of the conversion project is substantially different from the green field AD + upgrading project, while in this case the owner/investor is not expected to provide fresh financial funds, the exiting assets should be sufficient.

It is to be checked whether a non-returnable investment subsidy would be available in the country where the AD unit is already in operation, e.g., a renewable heat obligation scheme (Article 23).

In lack of state financial aid (non-returnable investment subsidy) the needed additional investments will be partially covered by capital grant funding and balance with bank credit.

The cash flow calculation presented in **The Example** for a green field biomethane project can be adopted to the conversion project through.

- replacing the estimated biogas production related data with actual, practical data from past operation,
- considering that certain components of the AD unit have already been depreciated,
- considering the additional investments needed for the AD unit,
- considering the remaining lifetime of the AD unit.

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# 6 Technical feasibility

## 6.1 Biogas substrates and biogas production forecast

Securing substrate supplies and elaborating reliable and prudent forecast for these supplies is probably the most important elements for developing and realising an anaerobic digestion (AD) based biomethane project. The volume, quality, and costs of proposed substrate, either processed or agri-crops feedstock, determine the engineering and the biogas producing capacity of the AD plant and substantially influence the feasibility of the project.

## 6.2 Basic considerations

When selecting the raw materials (substrates) for biogas production several factors must be taken into consideration, such as:

- Regulatory - sustainability,
- technical,
- by products potential
- economic.

### 6.2.1 Regulatory aspects

a) Food/feed crops

Food/feed crops are defined in the RED II as follows:

*"Food and feed crops" means starch-rich crops, sugar crops or oil crops produced on agricultural land as a main crop excluding residues, waste or ligno-cellulosic material and intermediate crops, such as catch crops and cover crops, provided that the use of such intermediate crops does not trigger demand for additional land.*

Article 26 of the RED II contains specific rules for biomass fuels (including biogas) produced from food and feed crops.

At the time of writing, with the ongoing institutional debate on the Renewable Energy Directive revision, the co-legislators position haven not heavily impacted the text of Art. 26 of food and feed crops utilisation. With higher GHG emissions savings thresholds to comply with in the Heating and electricity sector, the market for substrate with better GHG emissions performances will further develop.

b) Animal by-products

Animal by-products (ABPs) are materials of animal origin that people do not consume. ABPs include among others:

- Animal feed - e.g., based on fishmeal and processed animal protein,

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- Animal slurries/manures - Organic fertilisers and soil improvers - e.g., manure, guano, etc
- Technical products - e.g., commercial food waste, by produces from food and drinks processing plants, pet food, hides and skins for leather, wool, blood for producing diagnostic tools.

ABPs emerge – for example - from slaughterhouses, plants producing food for human consumption, dairies and as fallen stock from farms.

ABPs can spread animal diseases (e.g., BSE) or chemical contaminants (e.g., dioxins) and can be dangerous to animal and human health if not properly disposed of. EU rules regulate their movement, processing, and disposal. In Ireland pasteurisation is standard requirement to mitigate the risks associated, the Department of Agriculture have categorised three types of AD plants, and application for licence is required to operate an AD plant.

ABPs are categorised according to their risk using the basic principles in Regulation (EC) 1069/2009[1] and Commission Regulation 142/2011[2]. These regulations also contain the rules for processing ABSs in anaerobic digesters of the biogas plant.

Regulation (EC) 1069/2009 has been transposed to the domestic legislations of the EU member states. In **Estonia**, the biogas/ biomethane plants processing ABPs, including kitchen waste, shall be subject to approval by the locally competent regional veterinary administration. The biogas plant can only process ABPs of category 2 or 3. However, in the case of Category 2, only milk, eggs and their products or manure, slurry and digestive tract contents can be "raw". These materials must not pose a risk of spreading a transmittable disease. Other Category 2 materials must first be processed in a rendering plant by pressure sterilisation and only the resulting meat and bone meal can be used in a biogas plant. Category 1 materials may not be used for biogas production even after prior treatment by pressure sterilisation in a rendering plant.

c) Substrates accepted for “advanced fuel” production.

RED II contains specified targets for the share of “advanced fuels” in the total fuel consumption in transport. In case the transport fuel use of biomethane is targeted focusing on this list of Annex IX Part A is much desirable.

In **Estonia**, biomethane produced in biomethane plants resulting from the modification of biogas-fired power plants must be produced from at least 35% of the raw materials defining advanced biomethane and biomethane produced in biomethane plants that are not the result of a modification of biogas-fired power plants must be produced from at least 45% of the proportion of raw materials defining advanced biomethane. The list of feedstocks for advanced biogas and biomethane production is available in the Decree no. 110/2022 on the determination of types and parameters of supported renewable sources and criteria for sustainability and greenhouse gas savings for bioliquids and biomass fuels. The list of the

[1] *REGULATION (EC) No 1069/2009 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 21 October 2009*
[2] *COMMISSION REGULATION (EU) No 142/2011 of 25 February 2011 implementing Regulation (EC) No 1069/2009 of the European Parliament and of the Council laying down health rules as regards animal by-products and derived products not intended for human consumption and implementing Council Directive 97/78/EC as regards certain samples and items exempt from veterinary checks at the border under that Directive*

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feedstock, which can be used for biogas production directly and which need pre-treatment are listed in the in the draft regulation of the Estonian Ministry of the Environment.

Annex IX of the REDII is currently under revision and an updated draft version will be soon published by the European Commission services; the draft delegated act will be then submitted to the scrutiny of co-legislators.

d) Sustainability requirements

The sustainability requirements must also be taken into consideration. Among the sustainability related requirements (detailed in Article 29 of the RED II) the data on greenhouse gas emission intensity are the most important.

According to Article 29. paragraph 10. of RED II the greenhouse gas emission savings from the use of biofuels, bioliquids and biomass fuels shall be:

- at least 65 % for biofuels, biogas consumed in the transport sector, and bioliquids produced in installations starting operation from 1 January 2021.
- at least 70 % for electricity, heating and cooling production from biomass fuels used in installations starting operation from 1 January 2021 until 31 December 2025, and 80 % for installations starting operation from 1 January 2026.

The GHG emission savings are to be demonstrated in comparison with the relevant fossil fuel comparators. RED II imposes different GHG emission reduction thresholds depending on the field of application. For example:

- for biomass fuels used as transport fuels the fossil fuel comparator shall be 94 g $CO_2$eq/MJ,
- for biomass fuels used for the production of electricity the fossil fuel comparator shall be 183 g $CO_2$eq/MJ electricity,
- for biomass fuels used for the production of useful heat, as well as for the production of heating and/or cooling, the fossil fuel comparator shall be 80 g $CO_2$eq/MJ heat.

Annex VI of RED II contains the „Rules for calculating the greenhouse gas impact of biomass fuels and their fossil fuel comparators". In the Annex default values are also provided for some biogas substrates (manure, maize whole plant, biowaste). In lack of default values, the GHG emission is to be calculated, the methodology is detailed in Annex VI. Preference is for actual figures calculated, more robust and reliable data/information on GoO for gas consumers. Sustainability criteria has proposed 40% animal slurries with 60% agri feedstock, substrate of grass silage/mixed species pasture.

When planning the biomethane investment the GHG emission caused by the production and transportation of biomass (processed in the AD unit) must be considered. BIOSURF Deliverable 5.3. Methodology for the calculation and certification of GHG emission caused by the production of biomethane (in the whole Life Cycle) [3] provides assistance.

[3] *http://www.biosurf.eu/en_GB/downloads-and-deliverables/deliverables/*

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### 6.2.2 Technical aspects

The AD equipment must be engineered and dimensioned in accordance with the volume and estimated quality of the substrate input – also considering potential seasonal changes in composition and quality. Separately, the upgrading technology will influence the optimum scale of AD biomethane plant.

The characteristics of the to be processed substrates determine the technology of the anaerobic digestion unit, the basic engineering must correspond to the envisaged substrate composition. For example:

- certain substrates require pre-treatment before the digester, such as cutting (sizing), thermal treatment, etc. Such requirements are especially important for animal by-products,
- the equipment for forwarding the materials into the digesters must correspond to the characteristics of the substrates,
- the mixing equipment is to be designed in view of the characteristics of the substrates,
- the necessary volume of the digesters must provide for sufficient retention time for complete degradation.

Under normal anaerobic digestion process, the volume and composition of substrate input mix determines the volume and composition of digestate. The placement of digestate is one of the most important challenges in an AD/biomethane investment.

### 6.2.3 Economic aspects

When selecting the raw materials (substrates) for biogas/biomethane production a special attention is to be given to the possibility of processing different organic waste streams and other materials of zero or low value market value (for example: manure, slurry, thin fraction of separated stillage from bioethanol production, waste streams from sugar and food processing industries, food waste etc.). Utilising organic waste streams have pros and cons. On the positive side, the supply costs are lower, the GHG emission reduction effect is higher and, in some cases, even “gate-fee” type income can be realised. On the negative side, the volume of these materials is usually relatively low, their composition fluctuates with time and season, and they demand additional treatment facilities. The feasibility study has to address realistically both the positive and negative impacts.

During the preparation to the investment the volume, quality and biogas potential of these organic waste streams must be thoroughly checked. The waste materials have no standard quality, and it is quite difficult to take representative samples for laboratory analysis. For these reasons, the biogas yields forecasts must be treated with reservation.

As it is also illustrated in **The Example**, the costs of substrates are the most important single component in the total cost of biomethane production and the reliability of related data is a pre-condition of an acceptable feasibility study (and later of a successful project).

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## 6.3 Biogas production forecast

The substrate supply forecast must be reliable both in relation to volumes and biogas potential. (The specific methane yield is expressed in $Nm^3$ methane generated from 1 kg organic matter).

The data for the biogas yields can be taken from several sources:

a) for usual substrates, the biogas/methane yield data can be found in the literature. For example, the independent German institution KTBL (Kuratorium für Technik und Bauwesen in der Landwirtschaft) publishes recommendations ("Richtwerte") for planning biogas and methane yields from different substrates.[4]
b) laboratory analysis of representative samples,
c) data received from other biogas plant processing the same materials,
d) data provided by specialised companies offering AD technology, consultancy, biotechnological service, etc.

In this Guidance we provide **The Example** of cash flow calculations related to the feasibility of biomethane investment. The numbers applied in **The Example** are imaginary and must not be used as a reference. The only purpose of showing this **Example** is to assists the readers through illustration.

In **The Example** the substrate input is imagined as shown in the table below, which also illustrates the calculation of estimated biogas production:

*Table 1: Biogas production forecast*

| | Volume | DM | oDM | Biogas | Biogas | Methane | Methane |
|---|---|---|---|---|---|---|---|
| | to/year | % | % | $Nm^3$/to oDM | $Nm^3$/year | % | $Nm^3$/year |
| Cattle slurry | 30.000 | 8,0 | 85,0 | 350,0 | 714.000 | 55,0% | 392.700 |
| Poultry manure | 15.000 | 30,0 | 75,0 | 500,0 | 1.687.500 | 55,0% | 928.125 |
| Biowaste | 5.000 | 30,0 | 85,0 | 550,0 | 701.250 | 52,0% | 364.650 |
| Maize stover | 7.000 | 65,0 | 82,0 | 580,0 | 2.163.980 | 51,0% | 1.103.630 |
| Catch crops | 10.000 | 27,0 | 92,0 | 620,0 | 1.540.080 | 53,0% | 816.242 |
| Maize/sorghum silage | 15.000 | 32,0 | 93,0 | 650,0 | 2.901.600 | 52,0% | 1.508.832 |
| Recirculation | 20.000 | 5,0 | 30,5 | | | | |
| Total/average | 102.000 | 21,0 | | | 9.708.410 | 52,7% | 5.114.179 |

*where:*
*DM – dry matter content*
*oDM – organic dry matter share in total DM*
*$Nm^3$ – The volume of any gaseous material at temperature: 0 °C, and pressure: 1.01325 barA.*

Note: the volume of energy crop silage has been determined considering 8% loss at ensilaging.

[4] *Gasausbeute in landwirtschaftlichen Biogasanlagen Heft 107 Jahr 2015 3. Auflage www.ktbl.de;*

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The specific costs of individual substrates per unit of produced methane is a good indicator for identifying both the economically most attractive and most problematic substrates. This indicator also assists in addressing the economic impact when one or more substrates must be replaced.

*Table 2: Biogas substrate cost forecast*

| | Volume | Methane | Substrate cost | Substrate cost | Substrate cost |
|---|---|---|---|---|---|
| | to/year | $Nm^3$/to FM | EUR/to | EUR/$m^3$ $CH_4$ | EUR/year |
| Cattle slurry | 30.000 | 13,1 | 2,0 | 0,153 | 60.000 |
| Poultry manure | 15.000 | 61,9 | 10,0 | 0,162 | 150.000 |
| Biowaste | 5.000 | 72,9 | 15,0 | 0,206 | 75.000 |
| Maize stover | 7.000 | 157,7 | 15,0 | 0,095 | 105.000 |
| Catch crops | 10.000 | 81,6 | 28,0 | 0,343 | 280.000 |
| Maize/sorghum silage | 15.000 | 100,6 | 32,0 | 0,318 | 480.000 |
| Total/average | 82.000 | | | 0,225 | 1.150.000 |

*where:*
*FM – fresh mass*

Important questions to be answered in the feasibility study are the following:

a) are the applied biogas yields realistic?
b) are long-term supply agreements possible?
c) what are the risks of one or more substrates becoming unavailable?
d) will alternative substrate sources be available in case of disruptions with originally foreseen supplies?
e) has the deterioration of quality and loss of biogas potential with storage time been considered?
f) Is the necessary C:N ratio in the substrate supply mix secured?

## 6.4 Comments on substrates

Any feasibility study covering a biomethane investment project must contain the description of the substrates foreseen for processing in the anaerobic digestion unit. Without demonstrating the understanding of the specifics of the substrates the feasibility study will not be seen as reliable and trustworthy. Several examples are provided below.

a) <u>Agri crop feedstock (multispecies/grass) silage</u>

Assuming best practise methods and cross compliance regulations are applied, the use of dedicated Agri crops as feedstock for the biomethane production can be sustainable, such as multispecies pastures. However, current trends in the Estonian legislation will lead to a reduction in the use of purpose-grown biomass, i.e., in the long term it is inappropriate to build a project exclusively on energy crops, as the demand for biomethane produced this way may not be guaranteed in the future.

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In **The Example** 32, - EUR/tn was applied as the imaginary average cost for agri crop silage. In practice, long-term supply agreements must be concluded between the biogas/biomethane plant and the farmers to ensure stability and sustainability for both parties. The farmers gain secured income at fixed price, while the biogas/biomethane plant receives guaranteed substrate supplies at fixed price. Excluding the fluctuation of agri crop prices is beneficial for both parties in the long run.

In the above-mentioned supply agreements, the following factors must be taken into consideration:

- the fixed price of agri crop silage paid by the biogas plant to the farmers must be linked to the quality, preferably to the methane potential of the supplied material – ad adequate system is to be developed and agreed between the partners,
- for a replacement crop the same principle is to be applied: for example, if the methane potential of the crop is 10% less, than its price should be also 10% less.

b) Animal slurries

Animal husbandry results in the by-production of animal slurries, also called agricultural primary residues or animal slurries. The slurries can be used as raw material for biogas and subsequently biomethane production. However, only slurries generated from indoor housing can be obtained for energetic purposes. The main part of animal manures from sheep, goats, horses, gooses, and ducks is not usable for energy applications due to the high proportion of free-range systems of these animals. In Europe big quantities of animal slurries from indoor housing originate from cattle and pig farming, less from poultry farming. Manure from chicken/poultry is used in biogas plants in limited amounts because of high ammonia content.

Animal slurry can be subdivided in two main groups: liquid and solid fraction. “Slurry” is animal manure in liquid form, consisting of water with solid matter and urine of domestic animals, including possibly also small amounts of litter. “Manure” is a mixture of excrements of domestic animals which includes materials of animal bedding such as straw or wood chips. The biogas potential of animal slurry (both solid and liquid) depends partially on the food quality (fresh/liquid fodder, dried fodder). The yields for biogas and methane differ between slurry and manure and between animal species but also depend on the age of the animal slurry (outgassing).

Animal slurry can be used for the commercial energy production on and near the farms, without transportation on long distances. The material is easy to ferment, and the fermentation residue (digestate) can be applied as organic fertilizer. Significant advantages of the fermentation residues compared to untreated animal slurry are the reduced odour emissions, the homogenization of the substrate which makes it more readily spreadable, increased proportion of inorganic nitrogen which satisfies better the nutritional needs of plants, fewer pathogens and weed seeds.

c) Biodegradable organic waste

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Other (than animal excrements) organic biodegradable materials are defined under the Waste Framework Directive[5] : „bio-waste" means biodegradable garden and park waste, food and kitchen waste from households, restaurants, caterers and retail premises and comparable waste from food processing plants.

Although efforts have been made to reduce the amount of bio-waste from households in some member states, there is still a considerable amount of bio-waste derived from food-, feed- and beverage production and consumption that cannot be avoided. One of the best options for dealing with these organic waste streams is processing them in biogas plants producing energy and organic fertilizer.

Certain bio-waste streams, mainly from beverage and food processing, have a competing application, they can be also used as fodder (or component to fodder). As long as these materials (for example: spent grains from ethanol production, rape-seed press cake from biodiesel production, sugar-beet press cake etc.) find place on the animal feed market, the income there is substantially higher than the value generated through anaerobic digestion.

The landfilling of biodegradable organic waste from households must be forbidden. The bulk of the separately collected bio-waste from households is currently still treated in composting plants. Due to further regulations and developments in the biogas sector, an increasing amount of bio-waste material from this category can be expected for digestion.

The term "residue" comprises very different types of biodegradable materials. All of them have in common that they are by products and were originally not intended to produce bioenergy. Besides municipal and agro-industrial bio-degradable materials and animal slurries, this biomass category also includes crop residues (mainly straw), residues from landscape maintenance and conservation, incl. pruning material and catch crops.

The revision of legislative documents on biodegradable materials/waste has been completed in the European Union. The revised legislation on waste set clear targets for reduction of waste and establish the long-term path for waste management and recycling. Key elements of the revised waste package include:

- a common EU target for recycling 65% of municipal waste by 2030.
- a binding landfill target to reduce landfill to maximum of 10% of municipal waste by 2030.
- a ban on landfilling of separately collected waste.
- promotion of economic instruments to discourage landfilling.

The new waste legislation is clearly promoting the source separated collection of bio-degradable materials and treats anaerobic digestion as the preferred method of recycling. The recycling targets combined with strict limitations on landfilling create serious challenges in those countries, regions and communities which still landfill the bulk of the municipal waste. The municipalities in Europe are expected to take strong measures towards source separated collection and recycling. Processing the organic material for biomethane as the target product

[5] *Directive (EU) 2018/851 of the European Parliament and of the Council of 30 May 2018 amending Directive 2008/98/EC on waste (Text with EEA relevance)*

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will be increasingly attractive, while in this way clean fuel can be provided for the local fleets of buses, waste collecting and street cleaning machinery and other vehicles.

d) Crop residues

Crop residues are parts of the crop that are not harvested during standard agricultural operations. Significant amounts of agricultural residues remain on the field after harvest. The utilisation of these residues (also called by-products from agriculture) depends on several factors: types of crops, crop rotation, crop mix, agricultural practices, harvesting technics. There are considerable differences in Europe regarding cultivated area, types of crops and yields due to climate and soil conditions, accessibility, and farm practices.

Straws from cereal, maize and rapeseed production are the main crop residues, which are already used for many different purposes. The majority of the available (cereal based) straw is used for animal housing, it can be collected for CHPs, wheat straw is already used for bioethanol production, other biomass-to-liquid technologies are under development. Substantial part of straw remains on the field for keeping soil fertility. In view of its characteristics corn stover is much more suitable for anaerobic digestion than wheat straw and has fewer competing usages – for these reasons among crop residues corn stover is the most prospective resource for the biogas/biomethane industry.

Corn stover (straw) is not a traditional substrate for the biogas plant. The processing of corn straw (stover) in the biogas plants is a relatively new development in the industry which is continuously searching for low-cost substrates. This dry material with high celluloses content is not easily available to the microbes participating in the anaerobic digestion process and – for this reason – it must be pre-treated before entering the digester. Different companies have developed different approaches, including the application of mechanical, chemical, and biological methods. Only a few biogas technology companies have ready solutions for processing this material.

The harvesting of corn stover for the biogas plant requires special equipment (different from the usual corn harvesting machines), the costs must be foreseen in the investment budget of the project.

The average yield of corn stover is about 7 tons/hectare, so the volume included in the Example could be collected on about 1.000 hectares.

There are many other primary residues that can supply bio-degradable materials for bioenergy such as cuttings of permanent grasslands which are sometimes found on agricultural lands (in this case usually used for hay or silage production and its further use in animal husbandry), but which also originate from parks or other recreational areas, nature conservation areas or dykes and abandoned grasslands. Management of abandoned areas through cutting can be beneficial for biodiversity.

e) Catch crops/cover crops/second crops.

Catch crops (cover crops, second crops) are cultivated on the same piece of arable land before or after the main crops. These crops are mostly used to bridge the time in between main crop cultivations when the area would otherwise just consist of delicate fallow land. In this context

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catch crops/cover crops help to prevent water and wind erosion, nutrient leakage, and the consequent soil deterioration. Table 3. lists some of the plants which can be cultivated as catch crops/cover crops.

*Table 3: List of potential catch crops/cover crops*

| | |
|---|---|
| Winter barley | Hordeum vulgare |
| Winter triticale | Triticum x Secale |
| Winter oat | Avena sativa |
| Sunflower green | Helianthus annuus |
| Rye green | Secale cereal |
| Mustard green | Sinapis alba |
| Summer barley | Hordeum vulgare |
| Summer oats | Secale cereal |
| Summer triticale | Triticum x Secale |
| Oilseed radish | Raphanus salivus |
| Phacelia | Phacelia tanacetifolia |

## 6.5 Anaerobic digestion

This section of the feasibility studies is addressed to those readers (mostly financial people) who may not have detailed knowledge of the biogas technology and may have concerns about getting involved with a biological technology (which seems to be more difficult to operate than physical or chemical processes). In addition, the section also assists the project developer in formulating the inquiries to the technology suppliers, to go through the phases of the technology and to control whether all important elements have been included.

There is a big variety of biogas fermentation technologies on the market offered by specialised technology engineering companies, some of them having a proven track record with reference lists and confirmed performance, others at the early stage of development and practical application experiences.

The technological solutions differ from each other in the following key elements:

a) Pre-treatment of substrates
b) Wet/dry fermentation
c) Number of fermentation stages
d) Digestion temperature
e) Digester configuration
f) Mixing equipment (agitators)
g) Desulphurisation
h) Biogas storage

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### 6.5.1 Pre-treatment of substrates

The need from pre-treatment is very much substrate dependent. For example, the biogas plants fermenting animal by-products, animal waste (like slaughterhouse waste) must obey the relevant regulations, must cut the material to prescribed particle size and must carry out thermal hygienisation [pasteurisation]

There are several methods to pre-treat the substrates of vegetable origin also, like ultra-wave treatment, thermodynamic (heat and pressure) treatment, bio extruders, etc. Most of these technical approaches have appeared recently and need to be proven in the practice both in practical and economic terms.

In view of the assumed composition of substrates in **The Example** the pre-treatment is limited to sizing: one cutting equipment is needed for bringing the cattle manure (with straw) and the substrates of vegetation origin down to particle size of max. 40 mm. [20mm in Ireland]

### 6.5.2 Wet/dry fermentation

Most of the agricultural biogas plants apply wet fermentation, what means that the dry matter content of the fermentation mass is in the range of 6 – 15%. This offers the natural environment to the microorganisms "working" in the system. In view of the assumed substrate composition in **The Example** it is not necessary to consider the dry fermentation.

The wet anaerobic digestion (AD) process is applied to liquid waste streams that are conveyable by liquid pumping. The wet AD process can be done in reactors of two main configurations, continuously stirred tank reactors (CSTR) and plug flow reactors. The theory of the CSTR is that, through continuous mixing, the composition of the contents of the reactor in any given spot in the tank is the same as in any other spot in the tank. The theory of plug flow, on the other hand, is that the makeup of the contents at the head of the digester is different than that of the material leaving the digester just as the material flows through the digester in the pattern like a plug through a pipe. For the start of the systems liquid cattle manure or fermentation mass from the digester of an operating biogas installation is needed waste (to provide the initial stock of microbes participating in anaerobic digestion.)

### 6.5.3 Stages in fermentation process

The biogas plants operating on wet fermentation basis differ from each other regarding the number of process stages. There are plants, where the fermentation is realised in a single stage (that means that all substrates enter a single digester, and the fermentation residue is taken out of this digester). Depending on the volume of substrates there might be more than one digester running parallel to each other in one-stage fermentation systems.

In the two-stage solutions the substrates are fed-in into the first stage digester (often called main digester) and the fermentation mass is thereafter forwarded to the second stage digester (often called post-digester). The advantage of such digester configuration is that higher level of biodegradation of organic material (i.e., higher specific biogas yield) can be achieved.

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The Fachagentur Nachwachsende Rohstoffe e.V. (FNR) has carried out a Biogas Measure Program under the appointment of the German Ministry for Nutrition and Agriculture. They have analysed the data from 61 biogas plants and concluded that the remaining biogas potential in the fermentation residue of one-stage fermentation plants can be nearly two times higher than in the two-stage processes. In the FNR study the average remaining biogas potential was 9,5 $Nm^3$ $CH_4$/to in one-stage plants as compared to the average of 4,9 $Nm^3$ $CH_4$/to in the two-stage plants.

There are biogas technology companies offering 3 stage systems. The first stage in these plants is operated at low pH value and is destined for the hydrolysis step in the biological process chain. It is to be considered whether the additional investment- and operational costs are justified for typical agricultural substrates.

### 6.5.4 Fermentation temperature

The biogas plants operated with agricultural feedstocks apply different fermentation temperatures:

- Most of the units are operated at the so called “mesophilic” temperature range, which is 38 +/- 3 °C - the biological system is most stable at this temperature.
- Operating the fermentation at “thermophilic” temperature (54 +/- 2 °C) is more efficient but also more demanding (for example the regulation of the temperature in the digesters must be more precise and reliable);
- There are few biogas plants, which combine a mesophilic stage with a thermophilic stage – this cannot be desirable from the viewpoint of the biological system, while totally different microbes live and “work” at the different temperatures.

One possible approach is to determine the size (active volume) of the digesters calculating with mesophilic fermentation conditions but installing digester heating system and insulation, which would enable to run the plant at thermophilic temperature range in the future. By doing so, a reserve capacity could be established at low cost and with no risk.

### 6.5.5 Digester configuration

The digesters are placed either horizontal or vertical. The horizontal digesters might have a rectangular of a cylinder form, while all vertical digesters are cylinders.

The digester configuration, the feed-in systems and the mixing equipment are essential parts of proprietary anaerobic fermentation technologies and – as such – are determined by the selected technology partner.

### 6.5.6 Digester dimensions

A key design parameter for any digester system is the overall organic matter loading rate. For any given project, no two digester suppliers will provide a system of the same size. Loading

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rates are commonly expressed as the average number of days of retention time and/or the quantity of organic matter introduced to a given tank volume per day.

Under "organic load" we understand the quantity of organic dry matter (oDM) loaded into the unit volume of the digester daily expressed in kg oDM/$m^3$/day. In **The Example** a conservative organic load rate of 3,5 kg oDM/ $m^3$ digester volume/day was applied, although up-to-date agricultural anaerobic digestion systems may operate also at substantially higher rates.

The hydraulic retention time (HRT) indicates the number of days substrates remain in the digester(s) on average. In **The Example** the average HRT was estimated as 60 days (just for illustration) and this requirement has increased the needed digester volume (see Table 4.)

*Table 4: Digester volume estimation*

| | | |
|---|---|---|
| Organic dry matter (oDM) input | to/year | 17.369 |
| Average organic dry matter (oDM) input | kg/day | 47.586 |
| Allowed organic load (for planning purposes) | kg oDM/day/$m^3$ digester | 3,5 |
| Digester volume recommended based on organic load | $m^3$ | 13.596 |
| Input volume | $m^3$/day | 279 |
| Average hydraulic retention time (HRT) | days | 60 |
| Digester volume recommended based on HRT | $m^3$ | 16.767 |
| Recommended digester volume, min. | $m^3$ | 16.767 |

Assuming 17.000 $m^3$ digester volume in **The Example** results in the following indicators: [RGFI have an optimum size plant at 35,000/t pa, 40% animal slurry and 60% agri feedstock [substrate]

*Table 5: Digester dimension indicators*

| | | |
|---|---|---|
| Digester volume | 17.000 | $m^3$ |
| HRT (average) | 60,83 | days |
| Organic load (average) | 2,80 | |
| Biogas production | 1,56 | $m^3/m^3$/day |

Showing these indicators in the feasibility study will strengthen the confidence of the addressees that the anaerobic digestion system has been designed with due diligence. For example, the specific biogas production of 1,56 $Nm^3/m^3$ digester volume indicates that at 17.000 $m^3$ digester volume the fermentation system will have reserve capacity.

### 6.5.7 Mixing technique (agitators)

The proper mixing of the fermentation mass is an important pre-condition for efficient biodegradation. There are 3 principal ways of solving this task:

- mechanical agitators,
- circulation of the fermentation mass by means of an outside pump,

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- injection of biogas (mixing by the biogas bubbles moving upwards).

Most technologies are equipped with mechanical agitators, while the latter two approaches do not really correspond to the requirements of the biological system and do not provide for optimum conditions in the digesters.

### 6.5.8 Desulphurisation of biogas

The most common and cost-effective solution for the desulphurisation of the biogas produced is the biological way, when aerobic microbes convert $H_2S$ into elementary sulphur in the presence of oxygen.

The biological desulphurisation can be carried out either in the biogas area on top of the digesters or in separate desulphurisation columns. The latter is a more efficient solution, which also causes limited dilution of the biogas with nitrogen (and oxygen) but requires additional investment costs. The biological desulphurisation solution can be extended with adding active-coal filters.

Different biogas upgrading technologies have different requirements towards the sulphur content of the raw biogas. For example, biomethane quality standards and natural gas grid requirements put strict limits on the oxygen content of the product. These requirements must be thoroughly considered at connecting the anaerobic digestion installation with the biogas upgrading facility. No decision can be taken on desulphurisation within the AD unit without knowing the specifics of the subsequent technological step.

## 6.6 Upgrading of biogas

Similarly, to the previous chapter on the anaerobic digestion, this section of the feasibility studies serves the information of addressees (mostly financial people) who may not have detailed knowledge of the technology to be applied in the project.

Upgrading of biogas to biomethane means

- purification (removing components like water, hydrogen sulphide, ammonia, oxygen, nitrogen, carbon monoxide, halogenated hydrocarbons, siloxanes and particles)
  *plus*
- separation of carbon dioxide from methane.

Currently, biogas upgrading to biomethane is performed via water scrubbing, chemical scrubbing, physical scrubbing, pressure swing adsorption, and membrane separation. Recent advances have been made in the field of biochemical biogas upgrading using microbial-based systems and also in cryogenic upgrading. The cryogenic technology offers additional benefits, such as production of liquified biomethane (for transport fuel use) and the simultaneous production of high purity, food-grade carbon dioxide.

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A comprehensive and up-to-date review of biogas upgrading technologies is provided in the Research review paper „Biogas upgrading and utilization: Status and perspectives" by Irini Angelidakia at all. in Biotechnology Advances.[6]

When selecting the upgrading technology several factors must be looked at, among them:

- expected composition of biogas (for example hydrogen sulphide, ammonia, oxygen, nitrogen content),
- the quality requirements – CEN-EN 16723,
- the natural gas grid technical requirements (for example pressure, oxygen content,
- the intended use (for example intermediary biomethane storage is needed if refuelling stations are supplied directly),
- parasitic load the energy consumption (electricity and thermal) and the available energy sources,
- national regulations on limiting the methane emissions with the $CO_2$ stream,
- market options and requirements for selling the co-produced $CO_2$

The feasibility study should reflect that the upgrading technology has been carefully selected and the specific features of the chosen technologies have been taken into consideration when elaborating the material and energy balances.

In **The Example** no upgrading technology was identified, and no substantial thermal energy consumption was assumed. For purely illustration purposes 0,33 kWh/$Nm^3$ of biogas electricity consumption was considered.

## 6.7 Storage of biogas

The biogas plants must have a buffer biogas storage capacity, while

- there are interruptions in the operation of the upgrading (and the CHP unit, if installed),
- the volume of biogas production is fluctuating in time.

Biogas can be stored in the gas domes [membranes] installed on top of the digesters. The other solution is the installation of stand-alone ¾ spheres. Both solutions are of equal technical value, the choice is mainly dependent on the configuration of the digesters.

The necessary minimum size of biogas storage capacity is to be determined considering the coupling with the upgrading unit. Installing big biogas storage capacity provides important operational flexibility but results in additional capital and operational costs.

## 6.8 Minimizing gas leakages

Due to the economic, safety and environmental significance of methane losses, biomethane plants need to be designed, planned, built, and operated considering the minimization of methane losses. There are several technical and organization measures to reduce the

[6] *journal homepage: www.elsevier.com/locate/biotechadv*

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emissions from biomethane plants. Technical mitigation measures are real interventions on the plant, e.g., the installation of specific components and are mostly in connection with costs. Organizational measures describe the action sequences during plant operation. A non-exhaustive list of mitigation measures is listed below.

Technical mitigation measures:

- Gas-tight covering thanks, e.g., storing or mixing tanks.
- Installing an exhaust gas treatment
- Correct dimensioning of biogas pipes
- Regular replacement of aged gas holder membranes

Organizational mitigation measures:

- Perform leakage tests before operation and instalment of regular leak detection thereafter.
- Emission measurements after the renewal of plant components
- Gas holder filling level preferably at 50%
- Regular maintenance of openings
- Adjustment of substrate feeding regime before planned maintenance.
- Sufficient aeration during post-treatment
- Analysis of residual gas potential in the digestate.

## 6.9 Material balances

The feasibility studies for biomethane investment projects must contain the estimated material balances of the processes foreseen. The respective data can and should be obtained from the technical offers of the respective technology suppliers. Only preliminary opinions can be formulated but no decisions should be made based on data from literature.

In case of converting an existing biogas plant to biomethane production the material balance of the anaerobic digestion unit will be composed from actual operational data.

The Tables below from **The Example** illustrate how the material balances can be provided in the feasibility study.

For convenience of the readers, we repeat here Table 1. while this is the starting point for all calculations: needs to include grass silage and multispecies figures/yields.

| | Volume | DM | oDM | Biogas | Biogas | Methane | Methane |
|---|---|---|---|---|---|---|---|
| | to/year | % | % | $Nm^3$/to oDM | $Nm^3$/year | % | $Nm^3$/year |
| Cattle slurry | 30.000 | 8,0 | 85,0 | 350,0 | 714.000 | 55,0% | 392.700 |
| Poultry manure | 15.000 | 30,0 | 75,0 | 500,0 | 1.687.500 | 55,0% | 928.125 |
| Biowaste | 5.000 | 30,0 | 85,0 | 550,0 | 701.250 | 52,0% | 364.650 |
| Maize stover | 7.000 | 65,0 | 82,0 | 580,0 | 2.163.980 | 51,0% | 1.103.630 |
| Catch crops | 10.000 | 27,0 | 92,0 | 620,0 | 1.540.080 | 53,0% | 816.242 |

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| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Maize/sorghum silage | 15.000 | 32,0 | 93,0 | 650,0 | 2.901.600 | 52,0% | 1.508.832 |
| Recirculation | 20.000 | 5,0 | 30,5 | | | | |
| Total/average | 102.000 | 21,0 | | | 9.708.410 | 52,7% | 5.114.179 |

In **The Example** (where the operation of local CHP is foreseen) the biogas balance could look like as given in Table 6.

*Table 6: Biogas balance*

| | $Nm^3$/year | $Nm^3$/hour |
|---|---|---|
| Gross biogas production | 9.708.410 | 1.214 |
| Biogas loss (0,5%) | 48.542 | 6 |
| Biogas to CHP | 1.880.537 | 235 |
| Biogas for upgrading | 7.779.331 | 972 |
| Biogas methane content | 52,7% | |
| Gross methane production | 4.097.982 | 512 |

The DM (dry material) and oDM (organic dry material) balances are less important from economic point of view but they provide information on the level of conversion of organic material to biogas and on the expected DM content of the digestate coming out of the digesters. (Table 7.)

*Table 7: DM and oDM balances*

| | DM input | oDM input | oDM input |
|---|---|---|---|
| | to/year | to/year | % |
| Cattle slurry | 2.400,0 | 2.040,0 | 11,7 |
| Poultry manure | 4.500,0 | 3.375,0 | 19,4 |
| Biowaste | 1.500,0 | 1.275,0 | 7,3 |
| Maize stover | 4.550,0 | 3.731,0 | 21,5 |
| Catch crops | 2.700,0 | 2.484,0 | 14,3 |
| Maize/sorghum silage | 4.800,0 | 4.464,0 | 25,7 |
| Recirculation | 1.000,0 | | |
| **Total** | **21.450,0** | **17.369,0** | **100,0** |
| Converted to biogas | 12.067,6 | 12.067,6 | |
| Remaining in digestate | 9.382,4 | 5.301,4 | |
| **Fermentation residue (digestate)** | **10,43%** | **30,5%** | |

In anaerobic digestion facilities of this size the digestate is usually separated into two fractions, what makes the subsequent handling practical: the solid part can be transported for longer distances and marketed as fertiliser, while the spreading of the liquid fraction on cultivated land will be easier.

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Table 8. illustrates the material balance of digestate separation under the assumptions of **The Example**.

*Table 8: Seperation of digestate*

| | | |
|---|---|---|
| Total volume | to/year | 89.932 |
| Assumed density | to/m$^3$ | 1,00 |
| DM | % | 10,43 |
| Liquid fraction DM | % | 5,00 |
| Liquid fraction volume | m$^3$/year | 65.505 |
| Solid fraction DM | % | 25,0 |
| Solid fraction weight | to/year | 24.427 |

The material balance of the upgrading unit must include the methane loss factor. This has double importance: on one side this reduces the volume of product gas, on the other hand any methane emitted to the atmosphere has a negative effect of the GHG emission intensity of producing biomethane. The methane loss factor is very much dependent on the selected upgrading technology and of its efficiency (for example of the number of stages in PSA or membrane separation). Table 9. illustrates the material balance of the upgrading stage under the assumptions of **The Example**.

*Table 9: Material balance of upgrading*

| | Nm$^3$/year | Nm$^3$/hour |
|---|---|---|
| Biogas for upgrading | 7.779.331 | 972 |
| Gross methane production | 4.097.982 | 512 |
| Methane loss in upgrading (1%) | 40.980 | 5 |
| Net methane production | 4.057.002 | 507 |
| Carbon dioxide stream | 3.640.369 | 455 |

## 6.10 Energy supplies

Both the anaerobic digestion and upgrading units consume electrical and thermal energy.

The level of energy consumption related to the biomethane production depends on

- the volumes and composition of substrates,
- the selection of technology (for example mesophilic or thermophilic digestion, membrane, chemical absorption, or any other upgrading technology),
- the energy demand of the necessary technological equipment,
- the energy consumption of digestate processing (for example drying).

Correspondingly, the feasibility study can address the issue of energy supplies only based on data available from the basic engineering of the AD and upgrading units.

The principal decision to be taken at early stage is the following: should the energy consumption of the installation be covered fully or mainly from own sources or – on the contrary – importing electricity and source(s) of thermal energy is preferred.

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The straightforward solution for energy self-supply is to install a CHP (combined heat and power) unit burning biogas, generating electricity, and producing heat in form of hot water.

Pros for indigenous energy supply:

- the full volume of produced biomethane is qualified as renewable methane (while no fossil energy was consumed in the production processes),
- self-supply protects from potential disruption of supplies from external sources,
- self-supply protects from potential future price increases for external sources (electricity, natural gas) and provides a stable basis for the cost projection of energy supply.

Cons for indigenous energy supply:

- electricity and thermal energy produced by the local CHP may be more expensive than the imports from external sources
- for the security of operations, the connection to the electricity grid (as a back-up) is needed in any case.
- maintaining the process temperature in the digesters at times when the CHP is not in operation may require access to outside thermal energy source anyway.

Note: full independence from external energy sources cannot and should not be aimed at: the most sensitive part of the machinery and equipment must be operated, the process temperature in the digesters should be maintained also at times of disruption of the local CHP operation (for example for maintenance, etc,).

The easiest way of securing a back-up electricity supply is to establish a connection to the electricity grid with entitlement to take electricity any time. Alternatively, a local electricity generator could be installed, which would operate only in case of emergency.

The security of thermal energy supplies can be achieved in several ways:

- adding a boiler burning biogas to the machinery,
- connecting to the natural gas grid and burning natural gas in a boiler,

In **The Example** the installation of one local CHP unit is foreseen and the electrical capacity of the CHP unit is determined by the estimated yearly consumption of electricity in the AD and upgrading units.

The co-generated thermal energy (usually available in form of hot water) can be used to cover the heat requirements of the digesters. In the Example no thermal energy consumption has been considered for the upgrading unit. Obviously, this approach is acceptable only for some of the upgrading technologies. In case of chemical absorption, the heat requirement is high, and this influences the thermal energy balances of the installation substantially.

In **The Example** three alternatives were considered:

- Alternative A: local CHP for self-supply of energy
- Alternative B: external energy supply through importing electricity and natural gas from the respective grids.
- Alternative C: external electricity supply, local biogas boiler for heating the digesters.

The basic data for the CHP unit are illustrated in Table 10.

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*Table 10: Basic data of the CHP unit*

| CHP data | | |
|---|---|---|
| Electrical capacity | 500 | kW |
| Network connection | 500 | kW |
| Thermal energy production nominal capacity | 540 | kW |
| Conversion efficiency (to electricity) | 40,5 | % |
| Full load operating hours (calculated for 100%) | 8.000 | h/year |

The estimated energy consumption of the AD unit:

*Table 11: Estimated energy consumption of the AD unit*

| AD unit estimated energy consumption | | |
|---|---|---|
| Thermal energy consumption | 2.050.000 | kWh/year |
| Electricity consumption | 1.353.000 | kWh/year |
| Loss of electricity, % | 40.000 | kWh/year |

The thermal energy consumption of the AD unit fluctuates with the time of the year. Such fluctuations are illustrated in the Table 12.

*Table 12: Thermal energy balance of the AD unit*

| | % | own consumption, kWh | thermal energy sold, kWh |
|---|---|---|---|
| January | 12,5 | 256.250 | 230.000 |
| February | 10,5 | 215.250 | 180.000 |
| March | 10,0 | 205.000 | 160.000 |
| April | 8,0 | 164.000 | |
| May | 6,5 | 133.250 | |
| June | 5,5 | 112.750 | |
| July | 5,0 | 102.500 | |
| August | 5,0 | 102.500 | |
| September | 6,5 | 133.250 | |
| October | 8,5 | 174.250 | 140.000 |
| November | 10,5 | 215.250 | 180.000 |
| December | 11,5 | 235.750 | 210.000 |
| **Total** | **100,0** | **2.050.000** | **1.100.000** |

Note: Table 13. includes an imaginary local utilisation of thermal energy for heating buildings in the cold months of the year.

*Table 13: Thermal energy balance of the AD unit*

| Thermal energy balance | kWh/year | % |
|---|---|---|
| Thermal energy production | 4.320.000 | 100,0% |

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| | | |
|---|---|---|
| AD unit own consumption | 2.050.000 | 47,5% |
| Losses (5%) | 216.000 | 5,0% |
| Thermal energy utilised | 1.100.000 | 25,5% |
| Thermal energy not utilised | 954.000 | |

Note: in **The Example** the thermal energy balance has been estimated without consumption by the upgrading unit (which is very much technology specific).

### Alternative A with local CHP

The biogas balance in Alternative A:

*Table 14: Biogas balance - Alternative A*

| | $Nm^3$/year | $Nm^3$/hour |
|---|---|---|
| Gross biogas production | 9.708.410 | 1.214 |
| Biogas loss (0,5%) | 48.542 | 6 |
| Biogas to CHP | 1.880.537 | 235 |
| Biogas for upgrading | 7.779.331 | 972 |
| Biogas methane content | 52,7% | |
| Gross methane production | 4.097.982 | 512 |

In **The Example** the electricity consumption of the upgrading unit in Alternative A is estimated as shown in Table 15.

*Table 15: Electricity consumption of upgrading unit in Alternative A*

| | | |
|---|---|---|
| Specific consumption | 0,33 | kWh/$Nm^3$ biogas |
| Biogas input | 7.779.331 | $Nm^3$ biogas input |
| Electricity consumption | 2.567.179 | kWh/year |

The electricity balance in Alternative A:

*Table 16: Electricity balance in Alternative A*

| **Electricity balance** | kWh/year | **%** |
|---|---|---|
| Gross electricity production | 4.000.000 | 100,00 |
| AD unit consumption | 1.353.000 | 33,83 |
| Upgrading unit consumption | 2.567.179 | 64,18 |
| Loss of electricity, % | 40.000 | 1,00 |
| Net electricity production | 39.821 | 1,00 |

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### Alternative B without local CHP and biogas boiler:

In Alternative B the necessary electrical energy and natural gas are imported, there is no CHP and no boiler consuming biogas. Correspondingly, the volume of biogas available for the upgrading unit is about 235 $Nm^3$/hour higher than in Alternative A. This increases the electricity consumption of the upgrading unit accordingly:

*Table 17: Electricity consumption of upgrading unit in Alternative B.*

| | | |
|---|---|---|
| Specific consumption | 0,33 | kWh/$Nm^3$ biogas |
| Biogas input | 9.659.868 | $Nm^3$ biogas input |
| Electricity consumption | 3.187.756 | kWh/year |

The biogas balance in Alternative B:

*Table 18: Biogas balance without local CHP and boiler*

| | $Nm^3$/year | $Nm^3$/hour |
|---|---|---|
| Gross biogas production | 9.708.410 | 1.214 |
| Biogas loss (0,5%) | 48.542 | 6 |
| Biogas to CHP and boiler | 0 | 0 |
| Biogas for upgrading | 9.659.868 | 1.207 |
| Biogas methane content | 52,7% | |
| Gross methane production | 5.088.608 | 636 |

### Alternative C with local biogas boiler

In Alternative C part of the biogas is burned in boiler (to provide heating for the digesters), correspondingly the biogas volume available for the upgrading unit is lower.

*Table 19: Electricity consumption of upgrading unit in Alternative C*

| | | |
|---|---|---|
| Specific consumption | 0,33 | kWh/$Nm^3$ biogas |
| Biogas input | 9.226.169 | $Nm^3$ biogas input |
| Electricity consumption | 3.044.636 | kWh/year |

The biogas balance in Alternative C:

*Table 20: Biogas balance in Alternative C*

| | $Nm^3$/year | $Nm^3$/hour |
|---|---|---|
| Gross biogas production | 9.708.410 | 1.214 |
| Biogas loss (0,5%) | 48.542 | 6 |
| Biogas to boiler | 433.699 | 54 |
| Biogas for upgrading | 9.226.169 | 1.153 |
| Biogas methane content | 52,7% | |
| Gross methane production | 4.860.145 | 608 |

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Table 21. shows the comparison among the three alternatives:

*Table 21: Feasibility indicators for energy supply alternatives*

| Alternative | A | B | C |
|---|---|---|---|
| Electricity | own CHP | imported | imported |
| Thermal energy | own CHP | Natural gas | Biogas boiler |
| Methane production, million $m^3$/year | 4,10 | 4,86 | 5,09 |
| IRR (12 years), % | 10,02 | 9,37 | 17,32 |
| NPV (10%, 12 years), EUR | 1.298 | -44.552 | 563.106 |

Under the assumptions applied in **The Example** importing electricity and natural gas would result in cost savings, but no conclusion should be drawn from this comparison, while energy supply prices and the regulations on consuming fossil energy in biomethane production can be substantially different from country to country (as illustrated by the graphs in this chapter). These three alternatives were shown here only to demonstrate how the feasibility study could approach such a question.

For further calculations in **The Example** Alternative A has been applied.

## 6.11 Conditioning, storage and delivery of products and by-products

### 6.11.1 Biomethane

The produced biomethane can be delivered to the market in several ways:

- injection into the natural gas network
  - needed pressure, other technical, scheduling and reporting requirements are to be considered,
  - grid connections costs can differ substantially depending on volume, required pressure, distance, and required control equipment,
  - the feasibility study must include investment and operational cost data specific for the location.
- compressed in rail or road tanks,
- liquified in rail or road tanks.

Grid injection:

To feed the produced biomethane into the gas network, appropriate technical components, which can be designed differently depending on the individual case, must be available. The most important pieces of equipment include:

- connection pipeline,
- gas compression equipment
- intermediary gas storage
- gas pressure control, measuring and monitoring systems

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* Gas quality analysing and measuring system.
* Odour injection equipment
• conditioning and gas mixing equipment (enrichment with propane)

In addition to the components for pressure control, quantity measurement and safety, further components are required, such as shut-off devices, filters and separators, thermometers, temperature sensors, manometers, pressure sensors, power supply data acquisition, data remote transmission, volume converters, and tariff devices.

For the planning, construction, equipment, and operation of a grid injection station for feeding biomethane into the natural gas network the applicable regulations and rules must be complied with. The costs of establishing the grid connection vary in a very broad range and for this reason in **The Example** no detailed investment budget for the grid injection was prepared.

The cost of pipeline for grid connection is a crucial item in the investment budget which may cause locating the biomethane production facility on a certain site unfeasible. The pipeline cost is a function of the distance between the plant and the gas network, the amount of biomethane produced and the complexity of the civil work requested (i.e., burial, crossing of rivers, motorways, railroads etc.).

In case the costs of constructing the pipeline connection and the grid injection station are prohibitive, the option of liquification or the delivery in compressed state could be considered.[7] Transportation via compressed composite trailer unit is a competitive alternative for transporting biomethane to central grid injection facility or to directly to off grid gas consumers.

The quality of the produced biomethane must meet the relevant CEN-EN 16723 standard, which specify the quality parameters both for grid injection and usage as vehicle fuel.

### 6.11.2 Carbon dioxide

The impurities in the $CO_2$ rich stream, coming from the methane/carbon dioxide separation unit can be removed in the $CO_2$ recovery unit producing pure $CO_2$. The $CO_2$ recovery section includes a liquefying step and cryogenic unit(s) with a series of elements for the compression, drying and purification of the gas stream. The liquefaction and the thermal treatment allow a first separation between condensable pollutants and $CO_2$ on the one hand, and non-condensable gases on the other hand Upon cooling to minus 30-33 °C, the $CO_2$ separates from the non-condensable gases ($N_2$, $O_2$, and $CH_4$). In an additional distillation and condensation step, the $CO_2$ reaches high chemical purity $CO_2$ (99.9+%). The non-condensable gases must be released to avoid their accumulation, but a fraction of this stream can be fed back to the membrane section to minimise gas losses.

To produce food grade quality, the $CO_2$ must meet the EIGA/ISBT standard of the European Industrial Gas Association and the International Society of Beverage Technologists.

[7] *Biomethane grid injection or biomethane liquefaction: A technical-economic analysis G. Pasini, A. Baccioli∗, L. Ferrari, M. Antonelli, S. Frigo, U. Desideri, Biomass and Bioenergy 127 (2019) 105263*

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Correspondingly, the laboratory testing must prove that the product is completely bacteria and fungi-free, is odourless, tasteless, and colourless.

In the cash flow calculations of **The Example** the investment and operational costs of carbon dioxide production and the revenue from marketing are not included. Such an extension of the technology is to be addressed in a separate feasibility study in view of the market potential and quality requirements for carbon dioxide.

If to be marketed as a product, pure carbon dioxide will be stored and delivered in liquid form in tanks.

### 6.11.3 Digestate

The fermentation residue is a valuable by-product of the biogas process, while it contains – among others – phosphorus, potassium, and nitrogen (key components of mineral fertilisers).

In anaerobic digestion facilities of this size the digestate is usually separated into two fractions, what makes the subsequent handling practical: the solid part can be transported for longer distances and marketed as fertiliser, while the spreading of the liquid fraction on cultivated land will be easier.

In **The Example** it is assumed that the fermentation residue will be separated into solid and liquid fractions - for the purpose of easier handling and storage. Table 22 illustrates the digestate separation under the assumptions of **The Example**.

*Table 22: Separation of digestate*

| | | |
|---|---|---|
| Total volume | to/year | 89.932 |
| Assumed density | to/m$^3$ | 1,00 |
| DM | % | 10,43 |
| Liquid fraction DM | % | 5,00 |
| Liquid fraction volume | m$^3$/year | 65.505 |
| Solid fraction DM | % | 25,0 |
| Solid fraction weight | to/year | 24.427 |

In **The Example** the dry matter distribution between the liquid and solid fractions were estimated as shown in Table 23.

*Table 23: distribution of dry matter in the digestate fractions*

| Volume, to | DM | DM, to |
|---|---|---|
| 89.932 | 10,43% | 9.382 |
| 65.505 | 5,00% | 3.275 |
| 24.427 | 25,00% | 6.107 |

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The fermentation residue (digestate) will be applied on the agricultural land cultivated by the local agricultural partners. What monetary value is being put on the solid and liquid fractions?

The solid fraction may have a market value as assumed in the financial feasibility chapter of this paper. The liquid fraction also contains valuable nutrients, so it is reasonable to expect that agricultural partners will be ready to take over the liquid fraction if the biogas/biomethane plant operator contributes to the transport costs.

The example of valorizing biogas digestate to products can be found in **Estonia**. The Estonian company Biometaan OÜ hygienizes the digestate 1h at 70°C and then separates liquid and solid fractions and packs the solid fraction of digestate to 25 l plastic bag and liquid fraction to the 5 l canister (more details: www.bioon.ee).

## 6.12 Site selection

The site for the biogas/biomethane producing installation should be selected in the preplanning and pre-feasibility study phase considering several factors:

- what are the relevant local regulations on minimum necessary safety distances (explosion risk, odour exposure)?
- is the investment corresponding to the long-term development policies of the competent local authority (municipality, etc.)?
- are there long-term plans for road/rail/infrastructure constructions which impact the intended site?
- what are the technical conditions for connections to the electricity and gas grids for supplying energy to the biogas/biomethane installation?
- what are the technical conditions for injecting the produced biomethane into the natural gas grid (pipeline length and diameter, required pressure, etc.)?
- is the space required for the technology and for storing the substrates and the digestate (as specified in the technical offers by technology suppliers) available?
- is there a reserve space for possible future expansion?
- is the site connected to the public road?
- what are the distances for the land spreading of the digestate (first for bringing the liquid fraction to land cultivated in the vicinity)?

In course of the pre-feasibility study, in relation to the selection of the site, consultations with local key stakeholders including the local community and other parties (municipality, authority for building permits and public roads, archaeology, hydrology, ecology, flood risk assessment, traffic management, electricity grid operator, natural gas grid operator, fire-fighting body, farmers, agricultural companies) are necessary. Without selecting and securing the proper site for the project in the preparatory phase no meaningful feasibility study can be performed.

The biomethane producer will be able to exercise its right to request PDS to purchase the production pipeline including related equipment at a price corresponding to the value of the equipment included in the price of the related gas service. The information available from discussions with PDS and ERO indicates that the purchase price of the production pipeline up to 2 km in length should not be reduced in any way. The purchase price of a production pipeline between 2 and 5 km may be reduced according to the biomethane production capacity. Thus,

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a producer with a small biomethane injection capacity cannot expect to be fully reimbursed for the costs incurred for the associated technology and the construction of a production pipeline over 2 km.

The site selection may be dependent on domestic regulations, such as regulations on minimum safety distances. Even if local regulation allows, it is prudent to select a site which is far away from local houses. A range of 300-1000 meters can be reasonable in densely populated areas of Western Europe.

# 7 Market feasibility

## 7.1 Priorities in renewable energy policies

### 7.1.1 RED II

The RED II[8] is relevant to biomethane in several aspects:

- overall renewable energy target in final EU energy consumption,
- sectorial sub-targets: obligations on the renewable energy share in transport and heat sectors
- guarantees of origin to cover renewable gases,
- sustainability criteria for biogas

Biomethane can contribute to achieving the key RED II targets:

1. Member States shall collectively ensure that the share of energy from renewable sources in the Union's gross final consumption of energy in 2030 is at least 32 %.
2. The share of renewable sources in the transport fuel consumption should reach in 2030 at least 14%, including 3,5% from „advanced" fuels.
3. Each Member State shall endeavour to increase the share of renewable energy in the heating/cooling sector by an indicative 3.0 percentage points as an annual average calculated for the periods 2021 to 2025 and 2026 to 2030, starting from the share of renewable energy in that sector in 2020.

The Union's 2030 renewables and energy efficiency targets have been expressed and agreed at EU level without underpinning binding targets at national levels. Instead, new working methods and new instruments have been established to enable the collective achievement of the objectives of the Energy Union. The EU Governance Regulation has created a unique system of energy and climate governance ensuring that the Union and its Member States can plan together and fulfil collectively these 2030 targets, as well as ensure a transition to a climate neutral economy that is fair and cost-effective for all. The RED II and the Governance

[8] *Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources.*

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Regulation[9] require Member States to establish 10-year integrated national energy and climate plans (further shortly NECP) for the period from 2021 to 2030.

The NECPs[10] specify the national contributions and the aggregated NECPs are sufficient for the collective achievement of the Union's 2030 targets set in 2018. With the European Green deal the European Commission took the commitment to put itself on track to become a climate neutral continent by 2050. To reach this ambitious goal the energy and climate objectives set by the Climate and Energy Package were no longer sufficient. For this reason, the entire climate and energy legislation underwent an extensive revision. A revised Renewable Energy Directive is currently being discussed by the co-legislators. The revision includes a higher Renewable energy target (40% in the Commission proposal), higher sectoral targets, a GHG savings target for the transport sector and stricter sustainability requirement for the biomass sector.

What will happen by 2030 will be largely determined by the national energy and climate plans. The NECPs play a key role in the EU's governance system to ensure that the member states join forces and deliver on the common objectives together. They should provide as much clarity and predictability as possible for the business and finance sector to stimulate necessary private investments. They will also facilitate Member States' programming of funding and investments in the next multi-annual financial framework 2021-2027. The governance process also provides an opportunity to update the plans in 2024 to reflect experience and to take advantage of new opportunities for the remainder of the decade.

### 7.1.2 The European Green Deal

As mentioned in the previous subchapter, The European Commission presented on December 11, 2019, the European Green Deal[11] aiming at delivering the EU political ambitious to shift the EU economy to climate-neutrality by 2050.

The 24-page proposal provides a roadmap setting legislation initiatives "*to boost the efficient use of resources by moving to a clean, circular economy and stop climate change, revert biodiversity loss and cut pollution*". It also outlines investments needed and financing tools available and explains how to ensure a just and inclusive transition.

The European Commission has presented exhaustive legislation proposals to revise all the energy, environment and climate legislative framework in the EU and put it up to speed to halt biodiversity loss, minimise air and water pollution and curb greenhouse gas emissions reaching a 55% saving by 2030. The so-called Fit-for-55 package includes:

**Changes in the EU Emission Trading System**

Each year, the EU ETS lowers the cap on emissions from particular economic sectors and sets the price for carbon dioxide emissions. The Commission suggests lowering the overall emission cap even more and quickening the pace at which emissions are being reduced each year. As

[9] *Regulation on the governance of the energy union and climate action (EU/2018/1999).*
[10] *https://ec.europa.eu/energy/en/topics/energy-strategy/national-energy-climate-plans*
[11] *Brussels, 11.12.2019 COM (2019) 640 final COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS*

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for biomethane, this will be zero-rated under the system provided it complies with the Renewable Energy Directive rules.

### Effort Sharing Regulation

The regulation establishes stronger emission reduction goals for the building, road, and domestic maritime transportation, as well as the agricultural, waste management, and small industrial sectors, for each Member State. Considering the different starting points and capacities of individual Member States, these figures are based on their GDP per capita and are adjusted to take account of cost-effectiveness.

### Renewable Energy Directive (see previous chapter)

### Energy Efficiency Directive

The proposal requires Member States to reduce their energy consumption, with particular focus on building sector and heating.

### Regulation setting new $CO_2$ emission standards for cars and vans

The Commission proposal includes lower -$CO_2$ emission standards for passenger cars and vans to accelerate the transition to zero-emission mobility by requiring a 55% reduction in average emissions from new cars. The regulation sets a ban on internal combustion engin for new vehicles from 2035.

### LULUCF – Land use land use change and forestry regulation

The regulation proposal sets a EU target for carbon dioxide removal from natural sinks, corresponding to 310 million tonnes of CO2 emissions by 2030. By 2035, the EU should achieve climate neutrality in the land use, forestry and agriculture sectors, including other agricultural emissions.

### Revision of the Energy Tax Directive

The revision of the Energy Tax Directive proposed aligning the taxation of energy products with EU energy and climate policies, promoting clean technologies and removing the outdated exemptions and reduced rates that now encourage the use of fossil fuels.

### Revision of the Energy Performance of Buildings Directive

The Commission proposal on this directive sets out how Europe can achieve a zero-emission and fully decarbonised building stock by 2050. The proposed measures aim at increasing the rate of renovation, particularly for the worst-performing buildings in each Member State. It will modernize the building stock, making it more resilient and accessible.

### Gas Decarbonisation Package

The European Commission proposal on the package aims to facilitate the integration of renewable and low-carbon gases into the existing gas network. It proposes inter alia to ensure that renewable and low carbon gases have access to the gas wholesale market abolish costs for cross-border tariffs facilitating trade and reduce injection costs for those gases by 75%.

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### 7.1.3 REPowerEU

The geopolitical crises that lead to Russian's invasion of Ukraine, resulted in an extreme gas volatility. On Wednesday 18 May the European Commission published its plan setting out how the European Union can eliminate its dependency on Russian fossil fuels, called REPowerEU. As phase out of Russian coal imports has already been agreed and a gradual phase out of oil by end-2022 is currently under discussion, the REPowerEU plan focuses on how to phase out of Russian gas by 2027 in an orderly and affordable fashion. Notably, the REPowerEU includes a Biomethane Action Plan detailing tools and measures to scale up the sector and roll out 35 bcm of biomethane by 2030, including a Biomethane Industrial Partnership. The biomethane is among the ones prioritized by the European Commission in reaching a more sustainable and sovereign energy system. The Commission's action plan is structured along four main dimensions: 1) Energy Efficiency - Entailing a higher EE target and behavioural measures 2) Supply diversification – Common Purchasing of green hydrogen, LNG and gas from reliable trade partners 3) Energy transition acceleration – Higher Renewable Energy Ambitions reflected in stepped up targets 4) Investment and reforms – Revised Recovery and Resilience Plans, ad-hoc REPowerEU grants and calls under the main EU financing programmes. The European Commission reckons that delivering on the planned objectives will require an additional investment of €210 billion between 2022 and 2027. However, this would save almost €100 billion per year in reduced fossil-fuel imports.

The strategy includes a Biomethane Action Plan that aims at facilitating the increase in production of biogas and boost its subsequent conversion into biomethane, respecting the criteria agreed in the REDII. The focus is on waste and residue-based capacity and on the development of sequential/cover crops and sustainable biomass in marginal land. The main weaknesses identified are lack of focus on transport and on cross border trading. The Plan's actions are grouped under 5 areas: (i) Promoting production, use and injection in the grid (ii) Providing Incentives for biogas upgrading into biomethane (iii) Promoting adaptation of existing infrastructure and the development of new infrastructure for biomethane through EU gas grid (iv) Address RND&I gaps (v) Access to finance. Higher renewable targets may drive biogas and biomethane demand. The Commission is proposing to increase the targets currently under discussion in the context of the Fitfor55 Package. Concerning transports, the advanced biofuels target is the only one remaining unchanged, while the increase of the Renewable Targets seems to be mainly covered by H2 and electrification.

## 7.2 Export market possibilities

In principle there are several ways of exporting biomethane into another European country:

a) **Direct physical deliveries in tanks compressed or liquified (road, rail, water)** – the administration is the same as for liquid biofuels.

b) **Physical deliveries in natural gas pipelines** – following the rules and procedures of natural gas transport/transit.

c) **Virtual transfer of „renewable" value by means of Guarantees of Origin (GOs)** – regulated in RED II

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d) **Mass-balancing in the natural gas network –** the ERGaR concept of cross-border biomethane administration

a) Direct physical deliveries in tanks are available only in limited geographical circle around the biomethane production installation, and in limited volumes. This way of bringing biomethane to the market is very specific to local circumstances. Nevertheless, if demand over the border arises, the feasibility study can be performed reflecting the concrete situation for volumes, forms of delivery and pricing.

b) The physical deliveries through natural gas pipelines can be realised in accordance with the natural gas transport administration, following the rules and procedures which are valid for forwarding natural gas cross-border transfers (the transport/transit capacities must be booked, delivery schedules must be strictly met, etc.). Such deliveries are arranged today in practice, although the volumes are quite small yet. The burdensome and costly administration makes economic sense only if the biomethane imported is qualified for state aid/financial benefits. The ruling of the European Court of Justice in Case C-549/15 at the European Court of Justice (ECJ) E.ON Sweden vs. Swedish Energy Agency provides the legal basis for these transactions. The ECJ judgement confirmed that sustainable biomethane could be forwarded cross-border through the interconnected European natural gas pipeline network subject to proper mass-balancing administration and sustainability verification.

c) Guarantees of Origin issued for biomethane consignments can be exported under the condition that the related methane volumes have not been placed on the domestic market as renewable gas. The RED II extended the system of Guarantees of Origin (further GO) to renewable gases in the expectation that this will create a European market for such gases, among them biomethane. As per definition the value of the GOs is determined by the customers willing to pay a premium (over natural gas) on a voluntary basis.

Respective quotes from RED:

*"Guarantees of origin which are currently in place for renewable electricity should be extended to cover renewable gas. … This would provide a consistent means of proving to final customers the origin of renewable gas such as biomethane and would facilitate greater cross-border trade in such gas. It would also enable the creation of guarantees of origin for other renewable gas such as hydrogen."*

*"Guarantees of origin issued for the purposes of this Directive have the sole function of showing to a final customer that a given share or quantity of energy was produced from renewable sources."*

*"A guarantee of origin can be transferred, independently of the energy to which it relates, from one holder to another."*

The information on financial support received is included on the list of obligatory content of GOs. This means that the RED II explicitly allows for issuing GOs for subsidised biomethane volumes. Nevertheless, the Member States are also entitled not to do so:

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*"Member States shall ensure that a guarantee of origin is issued in response to a request from a producer of energy from renewable sources, unless Member States decide, for the purposes of accounting for the market value of the guarantee of origin, not to issue such a guarantee of origin to a producer that receives financial support from a support scheme."* This right of the Member States must be taken into consideration when planning the sale of GOs for supported biomethane volumes. In any case, exporting GOs may provide an additional income for biomethane producers and – correspondingly – the possibilities for exporting GOs should be addressed in the feasibility studies. Nevertheless, it is very difficult to forecast the future income from selling GOs as long as no European forward market for these certificates is available for securing future prices.

Estimating future income from exporting GOs is challenging and calls for cautious approach. The declared function of GOs is informing the final consumers about the renewable origin of the energy carrier. It cannot be expected that the voluntary readiness of final consumers to pay for the green value in the future will provide the foundation for financing investments today – if no mature GO forward market is established, which would enable fixing future GO income for medium-long term.
The GOs cannot have an investment activity fostering impact also on economic considerations, per definition these GOs will always have a limited market value:

- the value will be determined (independently from the production costs) by the final consumers, who *voluntarily* decide on buying these GOs for demonstrating their environment/climate friendly attitude.
- the GO imports do not qualify for state financial support and for accounting towards national renewable energy commitments of the importing country.

d) Mass-balancing in the natural gas network - the ERGaR concept for administration of cross-border biomethane transactions

The main purpose of the European Renewable Gas Registry (ERGaR) association is to establish an independent, transparent, and trustworthy documentation scheme for mass balancing of biomethane distributed along the European natural gas system. In essence, ERGaR is to be seen as a network of national biomethane registries. Building on the activities of the national registries the common European documentation system enables cross-border trade of renewable gases via the European natural gas network while preventing double sale and double counting. The ERGaR administration is following the mass balancing methodology on a consignment-by-consignment basis.

In accordance with ERGaR's cross-border biomethane administration concept, the cooperation among the national biomethane registries issuing the biomethane Proofs of Origin has a central role in the transfer and mass-balancing of biomethane consignments along the European natural gas network.

It is to be noted that the ERGaR mass-balancing administration is different from the volume (energy) balancing processes of the network operators in the natural gas industry. The balancing in the gas industry is related only to balancing volumes in transportation, while the mass-balancing for biomethane must also cover tracking the sustainable and renewable

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("green", "bio") quality from production through injection until withdrawal and usage of the product.

The balancing in the gas industry begins with the injection and does not cover the origin and the production of biomethane. So, the balancing in the gas industry is aimed at

- establishing physical equilibrium between the injected and taken-out volumes and
- enabling security of supply to all end users and
- balancing any outages or oversupplies within the respective gas balancing areas in each country.

The physical balancing in the natural gas transportation and distribution systems has a continuous character; the equilibrium must be achieved at every moment. On the other hand, in case of biomethane the equilibrium between the injected and withdrawn volumes (expressed in energy units) is to be established within a set time frame.

## 7.3 Competition for substrates and products

### 7.3.1 Competition for substrates

Biomethane project developers must be aware that some of the raw materials they are planning to process may have a competing usage which impacts both the availability and costs of the supplies to the anaerobic digestion unit. This competition is mainly in the field of animal feed/fodder and of the production of liquid biofuels. Nevertheless, the substrate demand of other biogas installations in the area may also put limitations on the raw material supply to the project under preparation.

- Animal slurry

Solid manure (mostly with straw as bedding material) has been used as fertiliser and soil improver in the agriculture for centuries. In view of the accumulated experience, farmers are still interested to apply it on the fields, so it would be misleading to believe that solid manure is available for the biogas plants for free. Among the operational costs the price to be paid to the animal farmers must be considered. Alternatively, a solid manure – solid faction of digestate exchange can be negotiated with the farmers, what would be a mutually beneficial and stable solution.

The situation with liquid manure (often called slurry) is different. Spreading slurry on the cultivated land is broadly practiced but has to be phased out for GHG emission considerations. The anaerobic digestion is providing the most efficient solution for the treatment of slurries and the biogas/biomethane project is not exposed to competition by other usage.

- Biodegradable organic waste

Certain bio-waste streams, mainly from beverage and food processing, have a competing application, they can be also used as fodder (or component to fodder). If these materials (for

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example: spent grains from ethanol production, rape-seed press cake from biodiesel production, sugar-beet press cake etc.) find place on the animal feed market, the income is substantially higher than the value generated through anaerobic digestion.

The landfilling of biodegradable organic materials from households must be forbidden. The bulk of the separately collected bio-waste from households is currently still treated in composting plants. Due to the EU new waste legislation and developments in the biogas sector, an increasing amount of bio-waste material from this category can be expected for digestion.

The new waste legislation is clearly promoting the source separated collection of biowaste and treats anaerobic digestion as the preferred method of recycling. The recycling targets combined with strict limitations on landfilling create serious challenges in those countries, regions and communities which still landfill the bulk of the municipal waste. The municipalities in Europe are expected to take strong measures towards source separated collection and recycling. Processing the biodegradable organic waste materials with high water content for biomethane as the target product will have no real competition in the future.

- Crop residues

Crop residues are parts of the crop that are not harvested during standard agricultural operations. Significant amounts of agricultural residues remain on the field after harvest. The utilisation of these residues (also called by-products from agriculture) depends on a number of factors, such as types of crops, crop rotation, crop mix, agricultural practices, harvesting technics. There are considerable differences in Europe regarding cultivated area, types of crops and yields due to climate and soil conditions, accessibility and farm practices.

Straws from cereal, maize and rapeseed production are the main crop residues, which are already used for several different purposes. The majority of the available (cereal based) straw is used for animal housing. Straw can be collected for combined heat and power installations (CHPs), wheat straw is already used for bioethanol production, other biomass-to-liquid technologies are under development. The domestic market situation for wheat straw is to be analysed to see whether this material is available for the biogas plants at all and – if yes – whether the costs are acceptable.

Substantial part of straw remains on the field for keeping soil fertility. In view of its characteristics maize straw is much more suitable for anaerobic digestion than wheat straw and has fewer competing usages – for these reasons among crop residues maize straw is the most prospective resource for the biogas/biomethane industry. Nevertheless, the biogas/biomethane project must be ready to cover the costs of collecting, transporting, conserving, and storing maize straw.

There are many other primary residues that can supply biomass for bioenergy such as multispecies/grass silage of permanent grasslands (this material is usually used for hay or silage production and is subsequently applied in animal husbandry), grass silage [Cuttings] could also originate from parks or other recreational areas, nature conservation areas and abandoned grasslands. In these cases, no competing use is to be considered but the costs of collection, transportation and storage must be covered.

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- Catch crops/cover crops/second crops.

Catch crops (cover crops, second crops) are cultivated on the same piece of arable land before or after the main crops. These crops are mostly used to bridge the time in between main crop cultivations when the area would otherwise just consist of delicate fallow land. In this context catch crops/cover crops help to prevent water and wind erosion, nutrient leakage and consequently soil deterioration.

Multispecies pasture to be considered as rotation crops, due to increased productivity of 17tDM.ha, and up to 70% reduction in nitrogen requirements.

### 7.3.2 Competition for the products

- Biomethane

The consumers of biomethane are the same as the consumers of natural gas. It is important to recognise that the natural gas prices are different in different segments and if biomethane is supplied directly to the end users the wholesale costs can be substantially reduced.

For biomethane designated as transport fuel the competition is from liquid biofuels, while both liquid and gaseous renewable fuels are counted towards meeting the biofuel/advanced biofuel quota targets. In this field the competition for biomethane is very direct: the marketing of biomethane must be financially attractive to fuel suppliers in comparison with meeting their commitments with liquid biofuels. In several European countries the biofuel/advanced biofuel quota obligations can be fulfilled by certificates issued for biomethane consignments supplied for transport. One example is the system of RTFO-RTFC in United Kingdom, another example is the GHG emission reduction commitment of transport fuel suppliers in Germany. In both cases non-fulfilment is penalised, and the amount of penalty is the ceiling for the prices of biofuel certificates.

- Carbon dioxide

Examples of direct $CO_2$ utilization in the chemical industry are enhanced oil recovery (EOR) and enhanced coal-bed methane (ECBM) recovery. In the pharmaceutical and medical fields, $CO_2$ is used in a mixture with oxygen/air to promote deep breathing or for surgical dilation by means of intra-abdominal insufflations. Among the different CCU techniques, the use of $CO_2$ in the food market represents a relatively small but significant storage capacity and a moderate lifetime of storage. Its main use is in packaging, as preservative agent that increases the food shelf-life or for the carbonation of soft drinks, mineral water, and beer.

The fossil $CO_2$ supply chain is mostly based on fossil fuel combustion (carbon, natural gas, fuel oil, etc.); on gasification of solid fuels (carbon, oil shale, etc.); on extraction of $CO_2$ from geological reservoirs; and on $CO_2$ separation from petrochemical and chemical processes (such as syngas).[12]

[12] *Simultaneous production of biomethane and food grade CO2 from biogas: an industrial case study by Elisa Esposito, Loredana Dellamuzia, Ugo Moretti, Alessio Fuoco, Lidietta Giorno and Johannes C. Jansen Energy Environmental Science. 2019, 12, 281*

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Before taking a decision for additional investments resulting in production of (preferable food-grade) carbon dioxide the demand-supply situation on the domestic market must be carefully studied and considered.

- Digestate

Digestate can in the most part replace mineral fertilisers, but this is not a direct market competition situation. The value of digestate bio fertiliser can be calculated similarly to mineral fertilisers, i.e., based on the nutrient content, but the comparison is always local depending on the location of the biogas/biomethane plant and its integration into the agricultural environment.

# 8 Commercial feasibility

## 8.1 Biomethane revenues

### 8.1.1 Revenue sources

The revenues of the biomethane producer related to the sale of the primary product (biomethane) may consist of several components:

- sales price of the molecules (corresponding to the prevailing prices on the market segment where the physical product is being delivered),
- feed-in-premium (FIP) from a financial support scheme of the national government, if any,
- price premium paid voluntarily by the customer in respect of the „green" value (environment friendly, renewable, sustainable, etc.) of the product, if any,
- price premium paid by the customer in respect of the tax benefits the consumer is granted for purchasing renewable gas,
- income from the sale of Guarantees of Origin, if any,
- income from the sale of biofuel certificates, if any,
- income from the sale of ETS certificates, if any.

**In Estonia**, the biomethane market has been developed across the whole value chain. Namely, biomethane producer, biomethane filling station owner and public transport bus companies has been supported during last 4-5 years. The benefits, barriers, efficiency, and other impacts of different support measures were analysed and compared by an international consortium. The Development of the biomethane market, final report 2016 can be downloaded from Elering website.

The Price premium to biomethane producers based on GoO is operational till November 2023, based on GO-s (Guarantee of Origin). GO is an electronic document which sole purpose is to prove to the final consumer that a certain percentage of energy or energy was produced from renewable energy sources (according to the Renewable Energy Directive)

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CERTIFICATE OF ORIGIN is an electronic document provided by the system operator at its request to the manufacturer, certifying that the manufacturer has produced biomethane (Law on Natural Gas). AS Elering (Estonian electricity and gas TSO) will manage the Biomethane Registry, which will keep records of "GO", maintains the issuing, cancelling and transactions of GO-s.

Biomethane price premium support

Conditions and a procedure for the use of support for the development of the biomethane market were adopted 13.09.2017 by Regulation nr 50 of the Ministry of Economy and Transportation. The manufacturer can sell the gas molecule and certificate separately.

The price premium is € 100 per megawatt hour minus the average market price of natural gas during the current month, in the case the biomethane was consumed (GO was cancelled) in transport.

Certificate on non-transport consumption of the biomethane provides the price premium to the producer EUR 93 per megawatt hour minus the average market price of natural gas during the current month.

Support to CNG filling stations

Conditions to receive the investment support to the CNG/Compressed BioMethane (CBM) are the following: it should be fast filling and it must have the public access. The support is 35% from the total CAPEX, with the maximum support is 350,000 euro per project. This measure has been successful, during last 6 years the number of methane gas filling stations has increased from 3 in 2016 to 25 CNG stations in 2022.

The Support to methane public buses was adopted in 24.11.2015 by the Regulation nr 135 of the Ministry of Economy and Transportation. Conditions are the following:

- Methane bus requirement in public tender call
- 30% from total investment cost
- not less than 400,000 euro
- not more than 4,000,000 euro.

- The first positive cases have taken place: Pärnumaa Public Transport Centre, Tallinna Linnatranspordi AS, Tartumaa Public Transport Centre, etc.

A new support scheme, especially to agricultural companies has been drafted and should come in to force latest by the end of 2022. The Goals of the *"Recovery and Resilience Facility valorization of bioresources investment support"* are the following:

1. giving a higher added value to the bioresource
2. increasing research and development capacity and innovation capacity
3. contributing to the reduction of greenhouse gas emissions
4. renewal of production technology
5. product development

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6. valorization of bioresources (including by-products and residues).
7. development of innovative resource-efficient products with high added value

Supported activities

Activities that help achieve the goals are supported:

1. Support for the pre-treatment of bio-resources, including by-products and residues and bio-waste or the construction of a building necessary for processing under the conditions stipulated in the Building Code;
2. Purchasing or replacing equipment with innovative, resource-efficient devices that enable higher added value to the bioresource
3. One full-time research and development employee related to the above activity inclusion
4. Only such investments are supported, which do not create regulations (EU) 2020/852 significant damage referred to in Article 17 (do no significant harm)

Target group, rate, and amount of support

1. In the sense of the Commercial Code, an entrepreneur or a positively evaluated research and development institution;
2. The total budget of the support is approx. 23 million euros. Division of entrepreneurs and scientific and the type of development institutions is established by the Minister of Rural Affairs with a directive;
3. Support is given up to 50% of the investment cost and up to 100% of the eligible cost of involving the supported research and development worker;
4. The minimum size of the requested support per application is 500,000 euros and the requested amount the maximum amount of support is 5 million euros per applicant;

In view of the variety of revenue sources in The Example we do not start the cash flow calculation from a biomethane sales price estimate. Instead, we apply the term about „biomethane total sales revenue" which includes all above listed (and potentially other available) elements. In The Example the calculations are performed with a reverse approach: instead of calculating feasibility indicators for a given sales price we calculate the „total sales revenue" necessary for achieving the targeted feasibility indicators.

In the base case of The Example the required biomethane sales revenue in 6,05 EUR/$Nm^{3.}$

For avoidance of different interpretations: any potential „gate fee" type income, received for taking over specific waste streams are not considered as part of „total sales revenue". This income, if any, should be considered at calculating the total costs of substrate supplies (as an element decreasing these costs). Similarly, any income from the sale of by-products (digestate, carbon dioxide, electrical and thermal energy) must be considered as separate revenue sources and not as part of the sales revenues related to the primary product itself.

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### 8.1.2 Support schemes

The summary on support systems with country specific data is provided in REGATRACE Deliverable 6.1. „Mapping the state of play of renewable gases in Europe" (www.regatrace.eu):[13]

**Feed-in Tariff (FiT)** = A Feed-in tariff is a technology-specific support scheme providing a technology-specific remuneration per unit of renewable energy. Public authorities define and guarantee the tariff for a specific time period. Typical advantages are:

- Long-term contract with producer (often 10 -20 years)
- Guaranteed grid access
- Payment levels based on the renewable energy generation costs.

**Feed-in premium (FiP)** = A Feed-in premium is a bonus to be paid above the prevailing, pre-specified benchmark market price. It is a technology-specific subsidy level per unit of renewable energy at a pre-set, fixed, or floating rate. The premium can be designed to estimate the avoided externalities of renewable energy generation, or to cover energy generation cost by the total payment. The two typical FiP designs are either a constant (fixed and predetermined) price or so-called sliding price allowing variations of the premium as a function of the prevailing price.

**Quota/green certificates scheme (GC)** = In a quota/GC system, the production of renewable energy is encouraged by an obligatory target stating a specific share of renewable energy in the mix of producers, consumers, or distributors. Often compliance is tracked by the trade of renewable energy certificates, which provide an additional supplementary revenue to electricity sales. Renewable energy generators benefit by selling their energy to the grid at market price and by selling certificates on the green certificates market.

**Fiscal incentives=** Tax exemptions or reductions are usually additional (and minor) support systems. Renewable energy generators receive certain tax exemptions (e.g., carbon taxes) as compensation for the competitiveness of the renewable energy market and its development. The impact of fiscal incentives is dependent on the applicable tax rate.

**Investment support** = An investment support is a fixed amount received before, during or shortly after the building phase of the plant. It is independent of the amount of renewable energy production.

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[13] *Further information on support systems is available:*

a) *Horschig at all. „Biogas Upgrading: A Review of National Biomethane Strategies and Support Policies in Selected Countries" published 2019, Licensee: MDPI Basel, Switzerland*
b) *Banja at all. „Renewables in the EU: an overview of support schemes and measures" JRC report JRC110415, published 2017*
c) *Renewable energy policy database and support www.res-legal.eu*

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### 8.1.3 Biofuel certificates

Some governments impose mandatory biofuel quotas or GHG emission reduction commitments on transport fuel suppliers. Such commitments can be met either by producing/purchasing/marketing physical biofuel volumes or by purchasing biofuel (or GHG emission reduction) certificates. The costs of these certificates are included in the fuel prices paid by the final consumers (by the motorists) and not by the state. For this reason, this is not a direct state aid to the producers but still a very important driver for producing and marketing biomethane.

It is to be noted that in the biofuel certificate systems, biomethane is usually just one of the biofuels and is competing with the liquid biofuels on the certificate market. Because of a minor share of biomethane on the total biofuel market the biomethane specific supply/demand patterns have very limited impact on the biofuel certificate price movements. (*Italy is a special case, where the government introduced a biomethane specific scheme).*

The new biofuel shares targets fixed in RED II will likely add to the future demand for biofuel certificates, including those issued for biomethane consignments.

It is to be remembered that the fuels qualified as „advanced" in accordance with Annex IX. Part A of the RED II are counted double towards the targets and correspondingly get two certificates.

Some of the biofuel certificates are already traded internationally but the European market is not mature enough to make reliable price forecasts for the exported certificates.

In Germany the regulation promoting the use of biofuels was changed in 2015, the GHG reduction commitment replaced the biofuel volume quota commitment. For 2020 the min. GHG emission reduction level is set at 6%. Non-performing fuel suppliers must pay a penalty of 470 EUR/to $CO_2$ eq. GHG reduction, the penalty determines the theoretical upper limit for the market price of the GHG emission certificates. It is possible that other European governments follow this example and focus on GHG emission reduction effect rather than on physical volume shares. Due to the negative GHG emission intensity biomethane produced from manure enjoys clear benefits under such a system.

In the Netherlands, according to the Energy for Transport compliance system transport fuel suppliers can meet their annual obligation through purchasing renewable energy units (HBEs: *hernieuwbare brandstofeenheden*).

In the United Kingdom the Renewable Transport Fuel Obligations (RTFO) can be fulfilled by acquiring Renewable Transport Fuel Certificates (RTFC).

### 8.1.4 Guarantees of Origin (GOs)

Respective quotes from the RED II:

*"Guarantees of origin which are currently in place for renewable electricity should be extended to cover renewable gas. This would provide a consistent means of proving to final customers*

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*the origin of renewable gas such as biomethane and would facilitate greater cross-border trade in such gas. It would also enable the creation of guarantees of origin for other renewable gas such as hydrogen."*

*"Member States shall ensure that a guarantee of origin is issued in response to a request from a producer of energy from renewable sources, unless Member States decide, for the purposes of accounting for the market value of the guarantee of origin, not to issue such a guarantee of origin to a producer that receives financial support from a support scheme".*

*"Guarantees of origin issued for the purposes of this Directive have the sole function of showing to a final customer that a given share or quantity of energy was produced from renewable sources."*

*"A guarantee of origin can be transferred, independently of the energy to which it relates, from one holder to another."*

*"Member States or the designated competent bodies shall put in place appropriate mechanisms to ensure that guarantees of origin are issued, transferred and cancelled electronically and are accurate, reliable and fraud-resistant."*

The RED II extended the system of Guarantees of Origin to renewable gases in the expectation that this will create a strong European market for such gases, among them biomethane. Per definition the value of the GOs is dependent on the willingness of the final customers to paying a premium (over natural gas) on a voluntary basis. This implies that in case of a GO price increase the demand for GOs is likely to decrease or diminish. By other words: the GO market will mostly be a buyer's and very rarely (if ever) a seller's market – a shortage of offer will not result in price increase (like it is usual with other commodities), For these reasons the forecast for future income from the sale of GOs must be conservative.

To establish the envisaged European market of renewable gas GOs will be difficult and time-consuming. The main obstacle is that different support systems and different export/import limitations are in force in different countries and in most cases the imported biomethane is not treated equally with the domestic production.

## 8.2 Other income streams projection

- Commercialisation of production and sale of digestate as by-product
- Commercialisation of production and sale of carbon dioxide as by-product
- sale of surplus electrical and thermal energy

### 8.2.1 Fermentation residue

In view of the high volumes of fermentation residue (digestate) its disposal/utilisation requires careful attention in the preparation of feasibility studies. Although the digestate contains valuable nutrients, its placement may turn out to be very problematic and – under certain conditions – the fermentation residue will cause more costs than income. In **The Example** it

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was assumed that the digestate is separated into solid and liquid fractions (to facilitate better placement and distribution).

*Table 24: Digestate fractions in The Example*

| | to/year | DM % | DM to/year |
|---|---|---|---|
| Fermentation residue total | 89.932 | 10,43 | 9.382 |
| Liquid fraction | 65.505 | 5,00 | 3.275 |
| Solid fraction | 24.427 | 25,00 | 6.107 |

*Table 25: Estimated nutrient content of solid fraction in The Example*

| Estimated nutrient content | kg/to | kg/year | value, EUR/kg |
|---|---|---|---|
| Nitrogen total | 5,80 | 141.679 | 0,600 |
| Phosphorus ($P_2O_5$) | 5,00 | 122.137 | 0,500 |
| Potassium ($K_2O$) | 5,80 | 141.679 | 0,500 |
| **Total/average** | **16,60** | **405.496** | **0,535** |

The nutrient content data can be taken – for example – using the calculation model provided: https://www.lfl.bayern.de/iab/duengung/031516/index.php.

*Table 26: Assumption of market value of digestate solid fraction*

| | | |
|---|---|---|
| Nutrients average market value | EUR/kg | 0,535 |
| Value of nutrients in solid fraction | EUR/year | 216.915,7 |
| Discount for non-standard quality | % | 40,0 |
| Market value as discounted | EUR/year | 130.149,4 |
| Solid fermentation residue DM | % | 25,0 |
| Solid fermentation residue volume | to/year | 24.427,4 |
| **Solid fermentation residue value** | **EUR/to** | **5,3** |

### 8.2.2 Sale of surplus thermal energy

In **The Example** the cash flow calculations were performed under the assumption that part of the biogas is burned in a local CHP unit to secure electrical and thermal energies for the operation from renewable source. It was also assumed that part of the thermal energy not used for heating the digestate can be utilised in cold months for heating buildings. The value of so utilised thermal energy in included in the revenues of the plant at 0,03 EUR/kWh.

Table 27. shows the composition of revenues in **The Example** (at full capacity):

*Table 27: Composition of revenues in The Example*

| Income source | EUR/year | % | Price | |
|---|---|---|---|---|

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| | | | | |
|---|---|---|---|---|
| Biomethane sales revenue | 2.447.123 | 93,75 | 0,0605 | EUR/kWh |
| Thermal energy local utilisation | 33.000 | 1,26 | 0,03 | EUR/kWh |
| Digestate soled fraction | 130.149 | 4,99 | 5,3 | EUR/to |
| Total income | 2.610.272 | 100,00 | | |

## 8.3 Investment costs

The investment costs for a biogas unit are greatly influenced by the local conditions, among them the following non-technological factors may have a substantial impact:

- Availability of storage facilities for raw materials and fermentation residue, resp. the necessity of constructing new storage capacities for these purposes,
- Conditions for establishing both the electricity and natural gas network connections (voltage, pressure, distance, etc.)
- Magnitude of costs of earth works, road construction, etc.
- Logistics for substrate supplies and digestate placement.

No final feasibility study should be produced without having the site of the installation identified. The impact of site selection can be quantified in the pre-feasibility study phase through comparing the preliminary cash-flow calculations for different alternatives.

The capital budget is composed of the investment costs of the anaerobic digestion and upgrading units together with the auxiliary investments (like grid connection, utilities, etc.). Realistic and final feasibility study should be performed only based on the budget offers by the technology suppliers or EPC contractor(s). The preliminary cash-flow calculations provide a necessary and useful guidance for selecting the technology supplier(s) or EPC contractors. For example, comparing IRR for different technology solutions with regard to differences in prices, material and energy balances, utility consumptions, payment terms, etc. will facilitate the selection of the most feasible technology.

The investment budget calculations included in the feasibility study must be complete, well detailed, prepared with proper diligence, containing reasonable reserves which will ensure that the project can be realized with the planned investment budget.

All relevant cost elements must be considered, among them the costs of

- the acquisition of the site,
- earth works,
- establishing the export and import network connections (electricity and natural gas),
- detailed engineering,
- permitting,
- construction, equipment, pipes etc. (including transportation to the site, potential customs clearance),
- instrumentation, control, and automation,
- first set of spare parts,
- gas analysis, local laboratory,
- internal roads,
- fencing,

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- fire alarm and fire protection,
- lightning protection,
- energy and material costs for start-up,
- technical documentation, handbook for operation, etc.

Note: the above list is not exhaustive, only indicative. Careful attention is to be given to the fact, that the offers from the technology suppliers/EPC contractors may not include all the necessary items, which could cause additional costs and increase the total capital cost budget.

In **The Example** the following investments costs were included:

*Table 28: Example of investment costs budget*

| Item | AD | Upgrading | Total |
|---|---|---|---|
| Construction | 2.365.000 | 550.000 | 2.915.000 |
| Machinery for technology | 1.950.000 | 1.530.000 | 3.480.000 |
| CHP unit | 450.000 | | 450.000 |
| Pipelines | 195.000 | 80.000 | 275.000 |
| Measuring and steering system | 275.000 | 200.000 | 475.000 |
| Electricity network connection | 80.000 | 50.000 | 130.000 |
| Loading machine | 150.000 | | 150.000 |
| Roads, fencing | 150.000 | | 150.000 |
| Engineering, inspections | 170.000 | 120.000 | 290.000 |
| Land | 100.000 | | 100.000 |
| Other (Inc. Reserve) | 150.000 | 150.000 | 300.000 |
| **Total** | **6.035.000** | **2.680.000** | **8.715.000** |

Notes:

- the numbers in Table 28. serve as illustrations only, must not be used as a reference,
- for simplicity, the total in the column "upgrading" includes the costs of the natural gas grid connection (split under construction, machinery, pipelines) up to 250.000 EUR.

To get a sense of the investment costs the following simple calculation can be made:

*Table 29: Specific investment costs in The Example*

| | | |
|---|---|---|
| Net methane production 1 year | 4.057.002 | $m^3$ |
| Net methane production first 10 years | 40.164.323 | $m^3$ |
| Total investment | 8.715.000 | EUR |
| **Investment per unit of net methane produced** | **0,217** | **EUR/$m^3$** |

Auxiliary investments will be needed in the period covered by the feasibility studies (i.e. 15 years). While calculating the auxiliary investments, in **The Example** it was assumed that proper, professional maintenance will be consequently provided throughout the operation, what limits the need for replacing parts of machinery.

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In **The Example** the auxiliary investments (expressed in percentage of original investment value) were assumed as follows:

*Table 30: Auxiliary investments*

| | | |
|---|---|---|
| CHP unit year 8 | % of original investment | 35 |
| Technological machinery years 6-8 | % of original investment | 20 |
| Technological machinery years 12-15 | % of original investment | 30 |
| Measuring & steering equipment year 5 | % of original investment | 25 |
| Measuring & steering equipment year 10 | % of original investment | 25 |

Again, we underline that the numbers in Table 30 above are illustrative only and must not be used as a reference. The forecast for the necessary auxiliary investments must be made in view of the requirements of the selected technology, machinery, and equipment.

In **The Example** the auxiliary investments are not spread evenly among all the years, correspondingly the amount estimated for these financial expenditures is fluctuating year by year. It is assumed that the auxiliary investments will be financed from the operating income, thus reducing the cash flow.

In the cash flow calculation of any feasibility study the local (domestic) accounting rules must be followed. For the purposes of illustration, In **The Example** the depreciation calculated with

- 20 years for constructions, pipelines, road,
- 8 years for the CHP, technological machinery,
- 12 years for electricity network connection,
- 5 years for measuring/steering equipment, engineering, etc.

The depreciation drops (correspondingly the tax base increases) from year 9, while the machinery makes out the biggest part of the total investment.

## 8.4 Operational expenses

### 8.4.1 Raw materials

The list and costs of raw materials for biogas production is provided in Table 2.

### 8.4.2 Energy consumption

The energy consumption of the combined biogas to biomethane plant consists of 3 elements:

- Electrical energy
- Thermal energy
- Vehicle fuel

The alternatives for energy supplies have been addressed in Chapter 7.5. In the base case of **The Example** the alternative with biogas fuelled local CHP is selected. The own electrical energy

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consumption of the technology units is covered by the installed CHP unit, i.e., from out of own electricity generation. (See the electrical energy balance in Chapter 7.5.) In **The Example** the electricity consumption of the AD unit was assumed to be 16,5 kWh/to substrate, while the electricity consumption of the upgrading unit was taken as 0,33 kWh/$Nm^3$ biogas. (As always in this paper, these numbers are only illustrations and must not be considered as a source of information.)

It is to be noted that the actual electricity consumption depends on

- the selected fermentation technology, first on the consumption of the applied feed-in and mixing equipment and
- on the actual substrate qualities and composition.

In **The Example** the own thermal energy consumption of the biogas plant is covered by the hot water generated through cooling the flue gas and the engine of the CHP units, i.e., out of the co-generated heat.

The transportation and loading of raw materials and the transportation of the fermentation residue does require vehicle fuel – this consumption depends on the distances between the biogas plant and the agricultural fields. The transportation costs related to transporting the substrates are considered in the unit supply costs of these materials.

### 8.4.3 Personnel costs

The biogas/biomethane plants do not require numerous personnel being present 24 working hours a day. The daily tasks are limited to the loading of the daily volumes of substrates, to checking the installation, to registering the operational parameters and to taking samples from time to time.

Usually, the local personnel do not include technicians trained for full service and maintenance of the machinery (CHP unit, agitators, mixers, etc.), the local staff does only daily routine checks and small caretaking tasks and calls the service company when needed.

Under this approach (which is characteristic for the biogas/biomethane plants all over Europe) in **The Example** we have calculated with personnel costs in the magnitude of 5 persons, the yearly labour costs were estimated at 30.000 EUR/full time staff, which means 150.000 EUR/year for the biomethane plant.

### 8.4.4 Maintenance

The maintenance of the machinery is the second biggest item among the operation expenses after raw material supply costs. It is obviously important, that the preventive maintenance is carried out according to the respective schedules and the machinery is kept in best operating conditions all the time.

In **The Example** the maintenance costs for the CHP unit have been calculated at a rate of 1,10 Eurocent/kWh gross electricity production. It is usual that the plant concludes a medium-term

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service contract with the local affiliate of the producer of the CHP units or with another local professional/authorised CHP company on a lump-sum/operating hour fee basis. The service provider takes care of all planned or unplanned service tasks, replacement of oils and parts. Such a service contract gives the necessary assurance for the plant, that one of the most important parts of the installation is always kept at best operational conditions.

The other maintenance costs can be assumed using general market information. In **The Example** the maintenance costs were calculated based on the investment value as follows:

- maintenance of AD machinery: 2,5% of the invested value,
- maintenance of the biogas upgrading machinery: 5,0% of the invested value,
- constructions (digesters, roads, pipelines, etc.): 0,5% of the investment value.

In the first year of operation the maintenance was assumed at 25% level compared to the following years (to consider that the costs are lower in the guarantee period).

*Table 31: Maintenance cost projection in The Example*

| | | | | |
|---|---|---|---|---|
| CHP maintenance | 0,011 | EUR/kWh | 44.000 | EUR/year |
| Maintenance AD machinery | 2,5% | on investment | 48.750 | EUR/year |
| Maintenance upgrading machinery | 5,0% | on investment | 76.500 | EUR/year |
| Spare parts (incl. wear and tear) | 20.000 | EUR/year | 20.000 | EUR/year |
| Maintenance AD constructions | 0,5% | on investment | 11.825 | EUR/year |
| Maintenance upgrading constructions | 0,5% | on investment | 2.750 | EUR/year |
| **Maintenance total** | | | **203.825** | **EUR/year** |

### 8.4.5 Chemicals and other materials

The anaerobic digestion process of may require application of chemicals: desulphurisation agents, anti-foam materials and potentially other chemicals are needed, that is why this factor is considered in the economic calculations of **The Example** in the range of 10.000 EUR/year.

### 8.4.6 Transportation of the liquid fraction of the fermentation residue

The liquid fraction of the fermentation residue should be applied preferably on the cultivated fields surrounding the location of the biogas plant. As an indication of this cost element, in **The Example** It was assumed that the transportation cost for the liquid fraction will be at 2,- EUR/m$^3$. It is essential to include a realistic transportation cost estimate in the feasibility studies, which fully reflects the local circumstances (the possibilities of agricultural partners and the respective transport distances must be cleared in course of the preparation of the feasibility study).

### 8.4.7 Biotechnological service

It is in the elementary interest of the operator of the biogas plant to keep the biological system in the most efficient and balanced condition, otherwise the biogas generation will fluctuate,

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the biogas production will fall below the potential of the raw materials. The professional biotechnological service includes the following elements:

- Regular laboratory analysis (twice a month) of the composition of the fermentation mass from the digesters (volatile organic acids, etc.).
- Regular laboratory analysis (once a month) of the fermentation residue for remaining biogas potential (to control the efficiency of the degradation of the organic material);
- Laboratory analysis of every new substrate.
- Continuous analysis of process parameters (biogas yield, biogas composition, material balances etc);
- Recommendations on changing process parameters, substrate composition, etc.

In **The Example** the costs of the biotechnological service were assumed at 1.000 EUR/month, corresponding to 12.000 EUR/year.

### 8.4.8 Insurance

The costs of insurance must be included in the cash flow calculations of the feasibility study. In **The Example** insurance was estimated at 0,4% of the original investment. This assumes that the biogas plant is equipped with up-to-date steering and monitoring system, fire-fighting equipment and is taking care of professional, regular maintenance of the machinery.

### 8.4.9 Banking expenses

In **The Example** the banking expenses related to operations were calculated at 0,3% from the yearly total amount of all incomes and cash expenses.

### 8.4.10 Administration and overhead expenses

In **The Example** the administration and overhead expenses (management, accounting, etc.) were estimated at 3.000 EUR/month.

The following table illustrates the forecast for the operational expenses under the assumptions and conditions of **The Example**:

*Table 32: Forecast of operational expenses in The Example*

| | EUR/year | Share |
|---|---:|---:|
| Raw materials | 1.150.000 | 67,62% |
| Maintenance machinery | 169.250 | 9,95% |
| Maintenance constructions | 14.575 | 0,86% |
| Spare parts | 20.000 | 1,18% |
| Chemicals | 10.000 | 0,59% |
| Energy (electricity) | 0 | 0,00% |
| Fermentation residue transportation | 91.010 | 5,35% |

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| | | |
|---|---|---|
| Biotechnological service | 12.000 | 0,71% |
| Personnel | 150.000 | 8,82% |
| Administration, overhead | 36.000 | 2,12% |
| Insurance, banking | 47.754 | 2,81% |
| Total | 1.700.589 | 100,00% |

In the cash flow calculations of **The Example** no reserve was included for non-foreseen costs. Nevertheless, it is advised to include an unspecified, "reserve" cost position in every concrete feasibility study.

Showing the estimated operational expenses in relation to the volume of net biomethane production is an indicator which every addressee of the feasibility study will find interesting. Under the assumptions and conditions of **The Example** the operating costs are at 0,419 EUR/Nm$^3$.

*Table 33: Rough estimation of self-costs in The Example*

| | | |
|---|---|---|
| Net biomethane production | 4.057.002 | Nm$^3$/year |
| Opex per unit of biomethane | 0,419 | EUR/Nm$^3$ |
| Capex divided for 10 first year's production | 0,217 | EUR/Nm$^3$ |
| Opex + Capex | 0,636 | EUR/Nm$^3$ |
| Interest paid divided for first 10 years production | 0,047 | EUR/Nm$^3$ |
| **Rough estimation of self-costs** | **0,683** | **EUR/Nm$^3$** |

The question can be raised how the cash flow calculation in the base case of The Example can show 10,02% IRR at 6,05 Eurocent/kWh if the self-costs of biomethane production in Table 33 is 0,683 EUR/Nm$^3$. The difference is that the IRR is reflecting the rate of return on the invested own capital (25%), while in Table 30. the total Capex (including the part financed by the non-repayable investment subsidy) is considered.

### 8.4.11 Cash flow projection

The cash flow projection can be produced for different time durations. In **The Example** the period between 2022 and 2037 is covered. It is assumed that the construction of the plant is completed by the end of 2022 and the biomethane production starts in 2023. For the first year of operation the production level is estimated at 90%.

For simplicity, the cash flow calculation of **The Example** does not include inflation projection. If required, inflation projection can be added, and different inflation rate can be applied to the different revenue and costs components.

The cash flow scheme of **The Example** includes the following steps:

- Revenues
- Direct and indirect costs

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- EBITDA
- Depreciation
- EBIT
- Interest paid on credit.
- Amount subject to profit tax
- Profit tax
- Operational cash flow (interest paid, taxed)
- Investment cash flow
- Operational and investment cash flow
- Financing
- Credit service
- Financing cash flow
- Cash flow (aggregated operational, investment and financial cash flows)
- Feasibility indicators

Notes:

- The relevant regulations (Act no. 586/1992, Coll., on income tax) regarding depreciation and taxation must be followed – these may be substantially different from the numbers applied in **The Example**, which is provided solely for illustration.
- Companies and banks may apply different cash flow calculation schemes.
- Companies and banks may consider different feasibility indicators in their decision-making process.

## 8.5 Financing

The REGATRACE project provides a „Guidebook on securing financing for biomethane projects" (Deliverable 6.2). In deliverable 6.2 the potential different sources of financing are addressed. Therefore, this chapter on financing is limited to the question: how should financing been handled in the feasibility studies.

As a matter of fact, feasibility studies are crucial in securing financing for a project while they must secure the necessary trust of the investors and financing institutions. The financing chapter of a feasibility study must be tailor-made to the project it covers. To enable fulfilling this role key issues must be studied and cleared in the pre-feasibility study phase, the most important among them:

- is there a non-repayable investment subsidy available and – if yes – under which conditions?
- is the project qualified for receiving an investment subsidy?
- what is the level of private capital which could be invested into the project and what is the expectation of private investors for repayment and profitability?
- are banks/financing institutions ready to provide credit in form of direct project finance or securities are required from the stakeholders in the project?

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- which are the basic requirements of banks/financing institutions for providing project finance (necessary Debt Service Coverage Ratio (DSCR), offered credit terms, such as interest rate, repayment period, grace period, supporting documentation).

Having collected the information on the above issues the feasibility study will determine whether the financing of the project under the given circumstances is possible.

The cash-flow calculation of the feasibility study applies the above listed information collected in the preparatory phase and supposed to confirm that the

- the project has acceptable feasibility indicators under the available conditions of financing,
- the credit service is guaranteed,
- the expectations of the private investors can be fulfilled.

In **The Example** the financing was calculated under the following conditions:

- interest rate: 6 % per annum,
- repayment period: 10 years (excluding the grace period)
- grace period: 18 months
- Interest in grace period: accrued and added to the capital.

*Table 34: Key numbers for financing*

| | | |
|---|---|---|
| Total investment cost | 8.715.000 | EUR |
| Own funds (25%) | 2.178.750 | EUR |
| Non-repayable investment subsidy (30%) | 2.614.500 | EUR |
| Credit amount capital | 3.921.750 | EUR |
| Interest rate | 6 | %/year |
| Interest 6 months 2021 | 117.653 | EUR |
| Interest 12 months 2022 | 235.305 | EUR |
| Total credit incl. accrued interest | 4.274.708 | EUR |
| Credit service | 580.796 | EUR/year |

The detailed calculation of the credit service in **The Example** is illustrated in Table 35.

*Table 35: Estimation of credit service*

| Year | Outstanding capital | Capital repayment | Interest due | Credit service |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| 2022 | 4.274.708 | 0 | 0 | 0 |
| 2023 | 4.274.708 | 324.313 | 256.482 | 580.796 |
| 2024 | 3.950.394 | 343.772 | 237.024 | 580.796 |
| 2025 | 3.606.622 | 364.398 | 216.397 | 580.796 |
| 2026 | 3.242.224 | 386.262 | 194.533 | 580.796 |
| 2027 | 2.855.961 | 409.438 | 171.358 | 580.796 |
| 2028 | 2.446.523 | 434.004 | 146.791 | 580.796 |
| 2029 | 2.012.519 | 460.045 | 120.751 | 580.796 |

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| | | | | |
|---|---|---|---|---|
| 2030 | 1.552.474 | 487.647 | 93.148 | 580.796 |
| 2031 | 1.064.827 | 516.906 | 63.890 | 580.796 |
| 2032 | 547.921 | 547.921 | 32.875 | 580.796 |
| | **Total:** | **4.274.708** | **1.533.250** | **5.807.958** |

Applying the above conditions, the cash flow calculation of **The Example** confirmed that at the assumed set of data the project would be capable of servicing the credit. The resulted DSCR was 1,57.

In case of revamping an existing biogas, plant and converting it to biomethane production the financing of the project is to be secured under different set-up:

- no state aid in form of non-repayable investment subsidy can be expected,
- it is likely that the banks/financing institutions will not require cash capital contribution form the stakeholders, while the existing plant will be accepted as security,
- the costs of revamping of the anaerobic digestion plant must be added to the investment costs of the new upgrading unit (together with the investments needed for natural gas grid connection).

## 8.6 Feasibility indicators

### 8.6.1 IRR

As one of the key indicators for feasibility usually the Internal Rate of Return (IRR) is selected. IRR is the discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. The higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects or potential alternatives an investor is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best. One can think of IRR as the rate of growth a project is expected to generate. While the actual rate of return that a given project will in practice generate often differs from its estimated IRR rate, a project with a substantially higher IRR value (than other available options) would still provide a much better chance of good return on the investment.

In **The Example**, for the purpose of comparisons min. 10% IRR was considered as desirable, what means that the set of conditions giving an IRR above 10% was seen as offering satisfactory return on the investment, while an IRR value below 10% was viewed as a warning signal, that the feasibility of the project might not satisfy the investors and/or the financing institutions.

Under the set of conditions for the base case the in **The Example** (with local CHP) and at biomethane sales revenue of 6,05 EURcent/kWh the calculations resulted in

**IRR = 10,02% (first 12 years)**

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In **The Example** a 10% IRR expectation for 12 years duration was applied as illustration. This must not be seen as a rule or a reference. The IRR expectation and the respective time frame (10 years? 15 years? 20 years?) should correspond to the local market conditions and the requirements of the investors and/or the financing institutions.

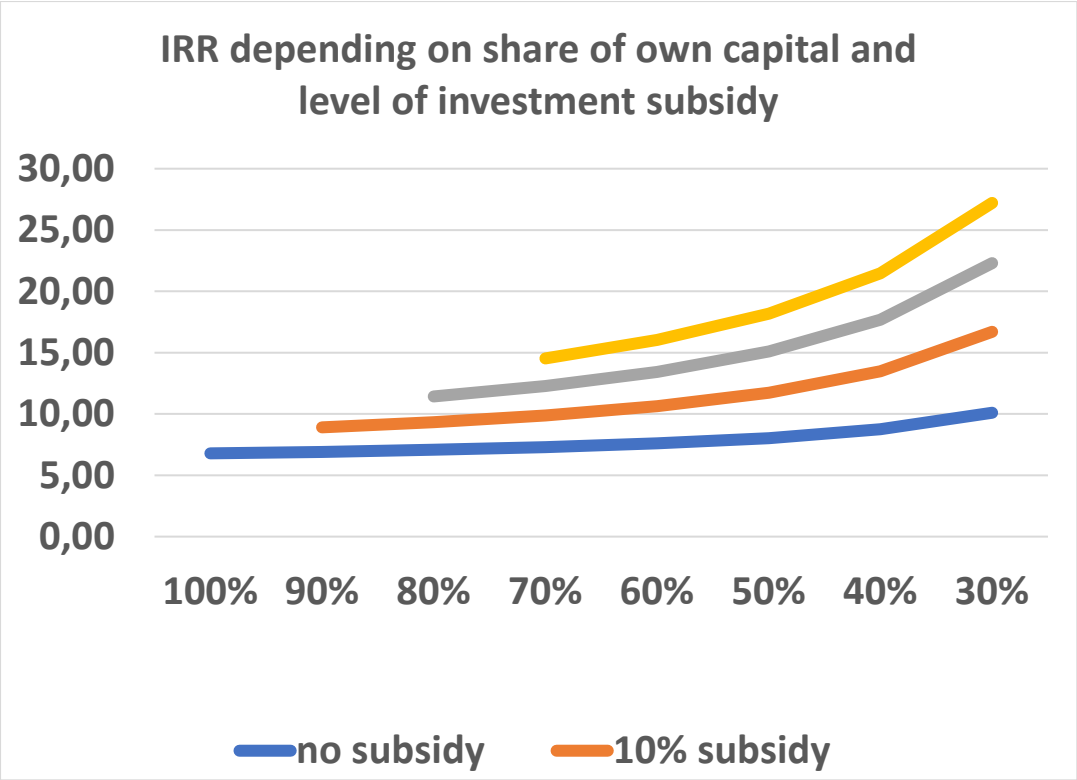


*Figure 2: IRR depending on share of own capital and level of investment subsidy*

### 8.6.2 NPV

Another feasibility indicator is the Net Present Value (NPV). The Net Present Value is the difference between the present value of cash inflows and the present value of cash outflows. By other words: the Net Present Value (NPV) of a project is the return on the investment (the sum of the discounted cash flows) less the cost of the investment.

NPV is used in capital budgeting to analyse the profitability of an investment or a project.

NPV compares the value of money (EUR) today to the value of that same money (EUR) in the future, taking a discount factor (for inflation and returns) into account.

About discount factor:

- In private industry, many companies use their own cost of capital (or a weighted average cost of capital) as the preferred discount rate.
- Government organizations typically prescribe a discount rate for use in the organization's planning and decision support calculations.

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- Financial officers may use a higher discount rate for investments or decisions viewed as risky, and a lower discount rate when expected returns from a proposed action come with less risk. The higher "discount rate" is a hedge against risk because it puts relatively more emphasis (weight) on near-term returns compared to distant future returns.

The present value of future cash flows requires the implementation of "time value of money" calculations. Cash flows are discounted for the selected number of years to equate future cash flows to current monetary levels. Discounting accounts for the idea that the value of EUR 1,0 today does not equal the value of EUR 1,0 received in one year because money in the present normally offers more earning potential (for example via interest/income bearing savings), than money yet unavailable. Cash flows received further in the future are therefore considered to have a lower present value than money received closer to the present.

In **The Example** NPV was calculated at a discount factor of 10%. If the NPV of a prospective investment calculated at the discount rate satisfying the investor is positive than the project can be accepted. However, if NPV is negative at a given discount rate than the project`s cash flow will result in a number below 10%.

The Net Present Value in **The Example** (base case) was calculated as:

**NPV (10%) = 1.298, - EUR**

which means that under the applied assumptions the project will likely generate 1.298, - EUR (of present value) in the first 12 years assuming that all future cash inflows are discounted at 10% rate.

Obviously, the discount rate applied for NPV calculation can be any other number than 10% - in view of the relevant local considerations the requirements of the investors and/or the financing institutions.

### 8.6.3 Discounted Cash Flow (DCF) or Present Value (PV)

Discounted cash flow (DCF) is a valuation method used to estimate the value of an investment based on its future cash flows. DCF analysis attempts to figure out the value of a project today, based on projections of how much money it will generate in the future.

DCF analysis finds the present value of expected future cash flows using a discount rate. A present value estimate is then used to evaluate a potential investment. If the value calculated through DCF is higher than the current cost of the investment, the project could be considered.

Note: the difference between NPV and DCF/PV is that NPV is calculated using the DCF/PV and subtracting the cost of the investment.

### 8.6.4 Profitability Index (PI)

The profitability index (PI), alternatively referred to as value investment ratio (VIR), or profit investment ratio (PIR), describes an index that represents the relationship between the costs and benefits of a proposed project, using the following ratio:

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$$\text{Profitability Index (PI)} = \frac{\text{PV of future cash flows}}{\text{Initial investment}}$$

The PI is helpful in ranking various project alternatives because it lets investors quantify the value created per each investment option. Under the above formula a profitability index of 1,0 is logically the lowest acceptable measure on the index, as any value lower than that number would indicate that the project's present value (PV) is less than the initial investment. As the value of the profitability index increases, so does the financial attractiveness of the proposed project.

An alternative way of expressing and calculating the Profitability Index is to have Investment required + PV of future cash flows in the numerator and the Investment required in the Denominator. In this case any positive number could be acceptable.

Under the applied assumptions in **The Example** the PV at 10% discount rate, for the first 12 years) is 2.180.178 EUR, which gives a PI of 1,001 in comparison with the invested own capital of 2.178.750 EUR.

Note: the PI of 1,001 resulted from to the way how the calculation of the base case was made: the biomethane sales revenue was calculated to reach min. 10% IRR.

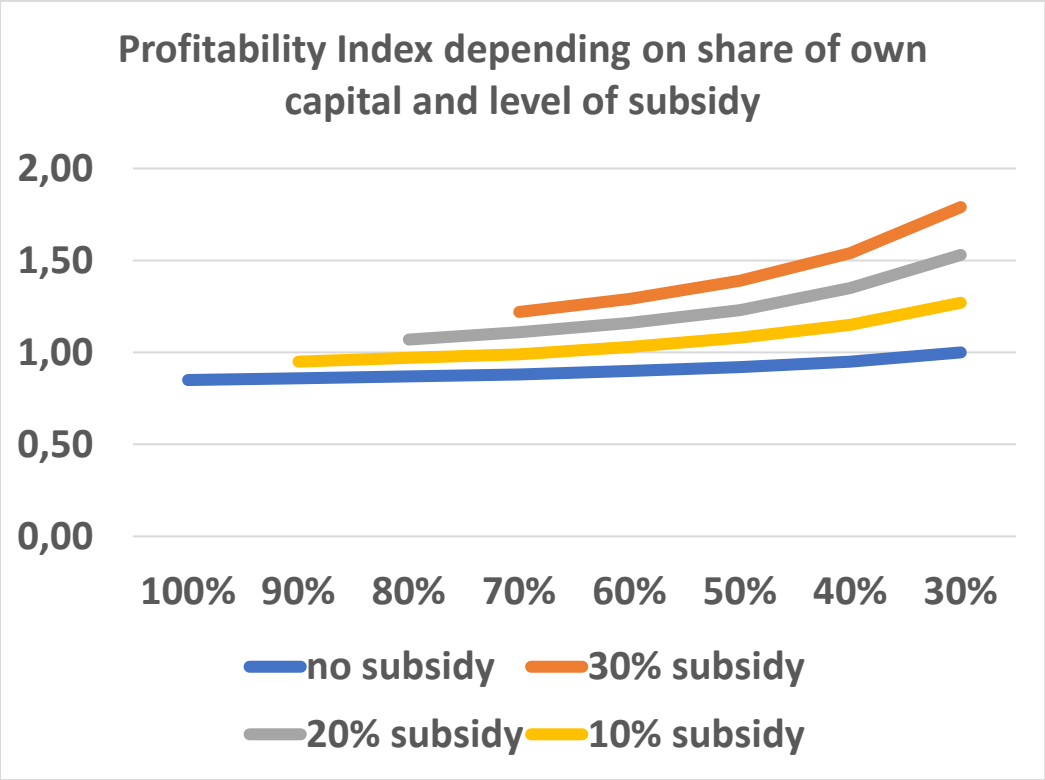


*Figure 3: Profitability Index dependig on share of own capital and level of subsidy*

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### 8.6.5 Discounted Payback Period (DPBP)

The discounted payback period is another capital budgeting procedure used to determine the profitability of a project. A discounted payback period gives the number of years it takes to break even from undertaking the initial expenditure, by discounting future cash flows and recognizing the time value of money. The metric is used to evaluate the feasibility and profitability of a given project.

Note: the simplified „payback period formula", which simply divides the total cash outlay for the project by the average annual cash flows, doesn't provide as accurate of an answer to the question of whether or not to take on a project because it assumes only one, upfront investment, and does not factor in the time value of money. (The simplified payback period is the amount of time for a project to break even in cash collections using nominal dollars.) Alternatively, the discounted payback period reflects the amount of time necessary to break even in a project based not only on what cash flows occur but when they occur and what discount factor is deemed appropriate.

The calculation of DPBP begins with the estimation of the periodic cash flows of a project shown by period in a table or Excel spreadsheet. These cash flows are then reduced by their present value discount factor to reflect the time value for money concept. This can be done – for example - using the present value function in Excel and a table in a spreadsheet program.

Next, the future discounted cash inflows are netted against the initial investment outflow. The discounted payback period process is applied to each additional period's cash inflow find the point at which the inflows equal the outflows. At this point, the project's initial cost has been paid off, with the payback period reduced to zero.

A general rule to consider when using the discounted payback period is to accept projects that have a payback period that is shorter than the target timeframe. A company can compare its required break-even date for a project to the point at which the project will break even according to the discounted cash flows used in the discounted payback period analysis, to approve or reject the project.

### 8.6.6 DSCR

The Debt Service Coverage Ratio (DSCR) is an important indicator for the financing institution; it shows how far the credit service (repayment of the credit together with the agreed interest) is secured.

$$\text{DSCR} = \frac{\text{EBITDA}}{\text{credit service amount}}$$

In **The Example** (base case with CHP, biomethane sales revenue at 6,05 EURcent/kWh**)**, in the years of the credit repayment (2023-2032) the EBITDA (calculated without inflation

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adjustment) is forecasted as 909.683, - EUR/year. The credit service (capital repayment + interest) was estimated as 580.796, - EUR/year. Thus, the forecasted DSCR:

DSCR = 1,57

what would meet the requirement of the banks/financing institutions.

# 9 Overall risk assessment

The fourth element focuses on the major risks the proposed plan can entail. The overall risk assessment part of a feasibility study examines the different ways your organization can reduce the risk of embarking on the new action.

The overall risk assessment should answer the following questions:

- *What are the major risks associated with the construction and operation?*
- *What is the survival outlook for each of the above risks?*
- *How sensitive are the profits on different risk scenarios?*
- *What are the best ways to minimize these risks?*

The aim is to try to cover all the possibilities and create a risk assessment checklist, which deals with the probability of the risk and the impact it would have on the project. It's aimed at recognizing the risks that can make or break the project from the smaller, more manageable risks.

In addition, at launching a new project, the overall risk assessment should also consider one final question. Answering the question "*When can the project be able to support itself without extra financing?*" is an important part of a feasibility study. Self-sufficiency is crucial for business success, as having to borrow can hinder the long-term survivability of the activity.

The construction and operation of a biogas/biomethane plant involves environmental, health, safety, commercial and other risks. With the accumulated experience in the industry these risks are well understood and can be managed if not eliminated. The objective of risk management is to identify all potential risks and put in place suitable measures that will reduce these risks to acceptable levels.

Ensuring the health and safety of employees and the public, and the protection of the environment should be a priority when undertaking any activity, including the construction and operation of a biomethane producing installation.

The failure to identify and manage risks can result in a disproportionate number of accidents and incidents that have a negative impact on the environment, or on the health and safety of site employees and the public. This leads to a negative perception of the industry, and as a result leads to increased wariness of insurers and investors who work with the sector.

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The effective risk management should result in:

- Prevention and/or management of pollution incidents and therefore avoidance or reduction of remediation costs.
- Prevention of accidents that could result in harm to employees, prosecution, and business disruption.
- Better staff retention, by demonstrating commitment to their safety and wellbeing.
- Reduced cost of insurance premiums and better insurance policies.
- Improved operational performance, delivering higher quality outputs.
- Better overall financial performance.

The ADBA Best Practice Checklist Risk Management[14] provides a comprehensive description of different risks related to the anaerobic digestion technology and the content can be applied to the biogas-biomethane complex directly. The risk categories detailed on the ADBA paper are:

- catastrophic failure
- environmental risks
- health and safety risks
- commercial and reputational risks.

For project developers it is recommended to study the referred ADBA document.

In relation to a biomethane development project the risk management checklist can be specified to include the following items:

Collateral/bankability requirements

- How Is the off take of biomethane and by-products secured? (Government support schemes, long-term purchase agreements, direct marketing positions)?
- Are there long-term substrate supply agreements with sufficient penalties imposed upon default of feedstock supply to cover the losses that would be suffered?
- Is there sufficient insurance over the project risks?
- Is there a long-term land lease agreement if the property is not owned by the project developer?

Permitting and licensing requirements

- Has a basic assessment or full Environmental Impact Assessment been completed?
- Has a waste management licence been obtained?
- Has an air emissions licence been obtained?
- Is there a natural gas grid connection agreement?
- Does the project have a licence for biomethane?

[14] *http://adbioresources.org/our-work/best-practice-scheme/best-practice-checklists*

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- Does the project have a construction permit?

Technical considerations

- Does the EPC contractor have sufficient experience/references?
- Is there a guaranteed performance ratio for the plant? Is this guarantee financially secured?
- Does the EPC contract provide for O&M training, has sufficient handover period been allocated?
- Is there a base warrantee on equipment of at least 2 years?
- Has the technical design been reviewed by a qualified independent party?

Contracting requirements

- Have the rights of project properly secured in the respective contracts (land lease, permitting, licences, offtake agreements)?
- Have the construction, O&M, off-take, and feedstock agreements been compiled by parties experienced in biogas/biomethane projects?
- Have the EPC, O&M, off-take, and feedstock contracts been validated by qualified external parties, ideally experienced in biogas/biomethane projects?

Additional considerations

- Has the business model included at least 12 months commissioning time at zero revenue?
- Is there an environmentally responsible digestate management and placement plan?

# 10 Sensitivity analysis

The Excel cash flow calculation provides a convenient tool for assessing the impact of different factors on the feasibility of the project.
While assessing the impact of a certain factor all other conditions remain unchanged and the investigated factor is altered. In this Guidance the impact of changes in the following factors are analysed:

- credit interest rate
- investment costs
- investment subsidy
- substrate costs
- efficiency of operation

In The Example the base case data are:

- 6% per annum credit interest rate
- 8.715.000 EUR investment costs

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- 30% non-repayable investment subsidy
- 1.150.000 EUR/year substrate costs
- 8.000 full load hours per year (an indicator for the efficiency of operation).

## 10.1 Credit interest rate

The sensitivity calculations are usually performed applying the expected sales price for the primary product (biomethane). With changing the input value for the investigated factor, the feasibility indicators (like IRR, NPV etc.) will change. This is the case in column A of Table 36: the biomethane sales revenue is fixed at 6,05 EURcent/kWh and the interest rate fluctuates between 4 and 8%. As the numbers show, with increased credit interest rate the IRR falls below the required 10%, while lower interest rates impact the IRR positively.

*Table 36: Impact of interest rate on IRR in The Example*

| A | | B |
|---|---|---|
| Interest rate % | IRR at biomethane price of 6,05 EURcent/kWh | Biomethane sales revenue required EURcent/kWh |
| 8 | 4,52 | 6,21 |
| 7 | 7,44 | 6,13 |
| 6 | 10,02 | 6,05 |
| 5 | 12,27 | 5,98 |
| 4 | 14,31 | 5,91 |

In column B a reversed approach is followed: the IRR remains the same (at the level of 10%) and the biomethane sales revenue necessary to secure this IRR is calculated. As can be seen about 2,6% higher biomethane sales revenue would be needed if the credit interest rate were increased to 8% (from 6%) and – on the contrary – the project could achieve the targeted feasibility at somewhat lower biomethane sales revenue.

In lack of established European biomethane market price information, this Guidance and **The Example** attached to it cannot be based on an estimated biomethane sales revenue. For this reason, the examples of the sensitivity analysis below follow the approach shown under B: the impact of the given factor is expressed through the changes in the biomethane sales revenue necessary for reaching the 10% IRR. By other words: the negative effect of a factor (for example higher credit interest rate) calls for higher sales revenues, while the positive effect (of lower credit interest rate) enables profitable operation at lower sales price.

## 10.2 Costs of raw material supplies

Table 37 shows the impact of potential changes in the total costs of raw material supplies to the biogas/biomethane plant. As compared to the base case higher substrate costs substantially increase the required biomethane sales revenue. For example, in case of 30%

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increase of the substrate costs (up to 1.495.000 EUR) and at 30% non-returnable investment subsidy the necessary sales revenue would be abt. 14,4% higher than at the substrate costs assumed in the base case (1.150.000 EUR).

*Table 37: Required biomethane sales revenue depending on substrate costs level*

| Cost level | no subsidy | 10% subsidy | 20% subsidy | 30% subsidy |
|---|---|---|---|---|
| 80% | 6,34 | 6,05 | 5,76 | 5,47 |
| 90% | 6,63 | 6,34 | 6,05 | 5,76 |
| 100% | 6,92 | 6,63 | 6,34 | 6,05 |
| 110% | 7,21 | 6,92 | 6,63 | 6,34 |
| 120% | 7,50 | 7,21 | 6,92 | 6,63 |
| 130% | 7,79 | 7,5 | 7,21 | 6,92 |

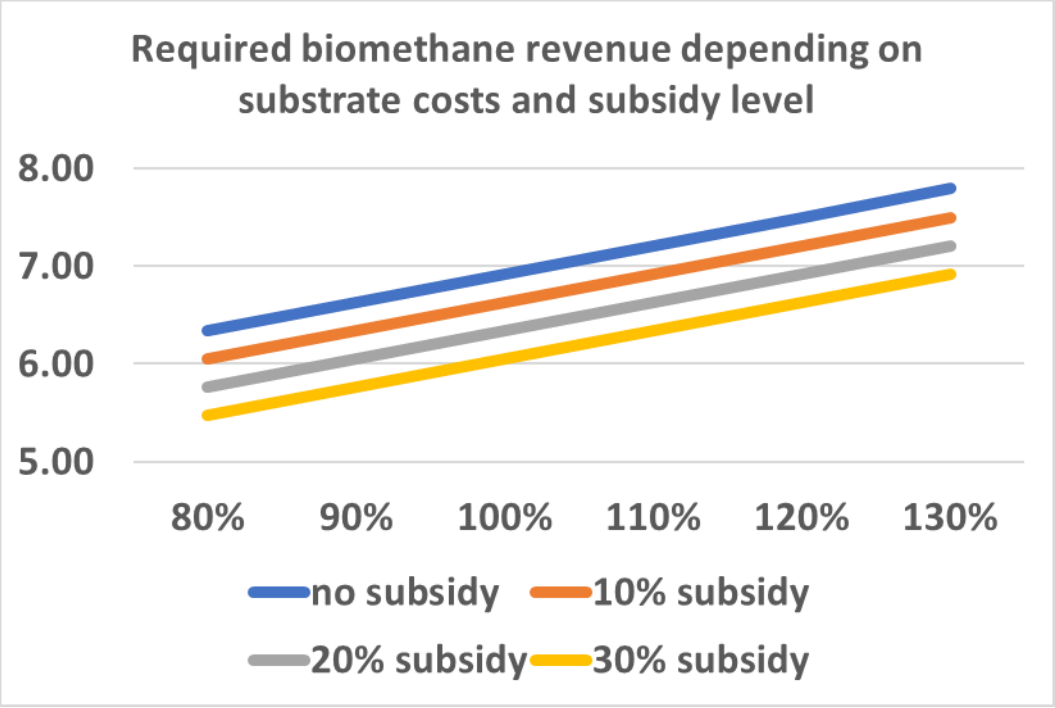


*Figure 4: Required biomethane revenue depending on substrate costs and subsidy level*

## 10.3 Investment costs

in **The Example** the alterations to the investment cost budget in the range of minus 20% - plus 30% were looked at. The comparison with the base case suggests that with the increase of the investment costs (in comparison with the assumed 8.715.000 EUR) substantially higher biomethane sales revenues would be needed for maintaining the feasibility of the project. The impact of higher investment costs is logically higher in cases of lower or no investment subsidy. For example, if the investment budget had to be increased to 11,3 million EUR) and no investment subsidy were available, 7,88 Eurocent/kWh biomethane sales revenue should be generated for achieving the 10% IRR.

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*Table 38: Required biomethane sales revenue depending on investment costs level.*

| costs level | no subsidy | 10% subsidy | 20% subsidy | 30% subsidy |
|---|---|---|---|---|
| 80% | 6,31 | 6,08 | 5,86 | 5,64 |
| 90% | 6,61 | 6,35 | 6,09 | 5,85 |
| 100% | 6,92 | 6,63 | 6,34 | 6,05 |
| 110% | 7,24 | 6,91 | 6,59 | 6,27 |
| 120% | 7,56 | 7,20 | 6,84 | 6,49 |
| 130% | 7,88 | 7,49 | 7,10 | 6,71 |

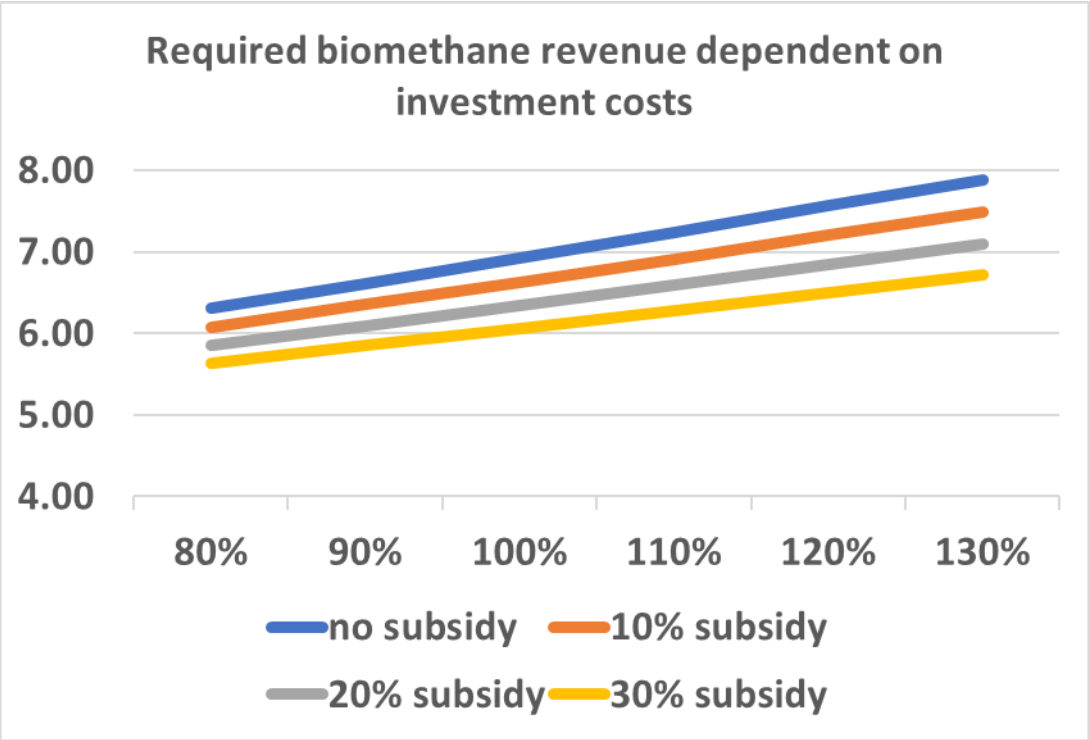


*Figure 5: Required biomethane revenue dependent on investment costs*

## 10.4 Investment subsidy

The tables above already illustrate the effect of non-repayable investment subsidy on the feasibility. At 8.715.000 EUR investment costs and 1.150.000 EUR substrate costs the needed biomethane sales revenue is 6,05 Eurocent/kWh if 30% investment subsidy is provided. On the other hand, 6,92 Eurocent/kWh biomethane sales revenue would be needed if no investment subsidy were available.

## 10.5 Efficiency of operation

Among the sensitivities the potential malfunctioning and disruptions of operations must also be considered. The simplest way of expressing efficiency is to assume a loss of biomethane production due to operational reasons. The correlation between loss of efficiency and

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worsening of profitability is evident. Without loosening the expectation on the feasibility indicator (10% IRR) the lost production can be compensated only through increasing the necessary biomethane sales revenue, as shown in Table 39.

*Table 39: Effect of efficiency of operation on feasibility*

| Loss of production | biomethane sales revenue |
|---|---|
| % | required Eurocent/kWh |
| 0 | 6,05 |
| 2 | 6,18 |
| 4 | 6,31 |
| 6 | 6,44 |
| 8 | 6,59 |
| 10 | 6,73 |

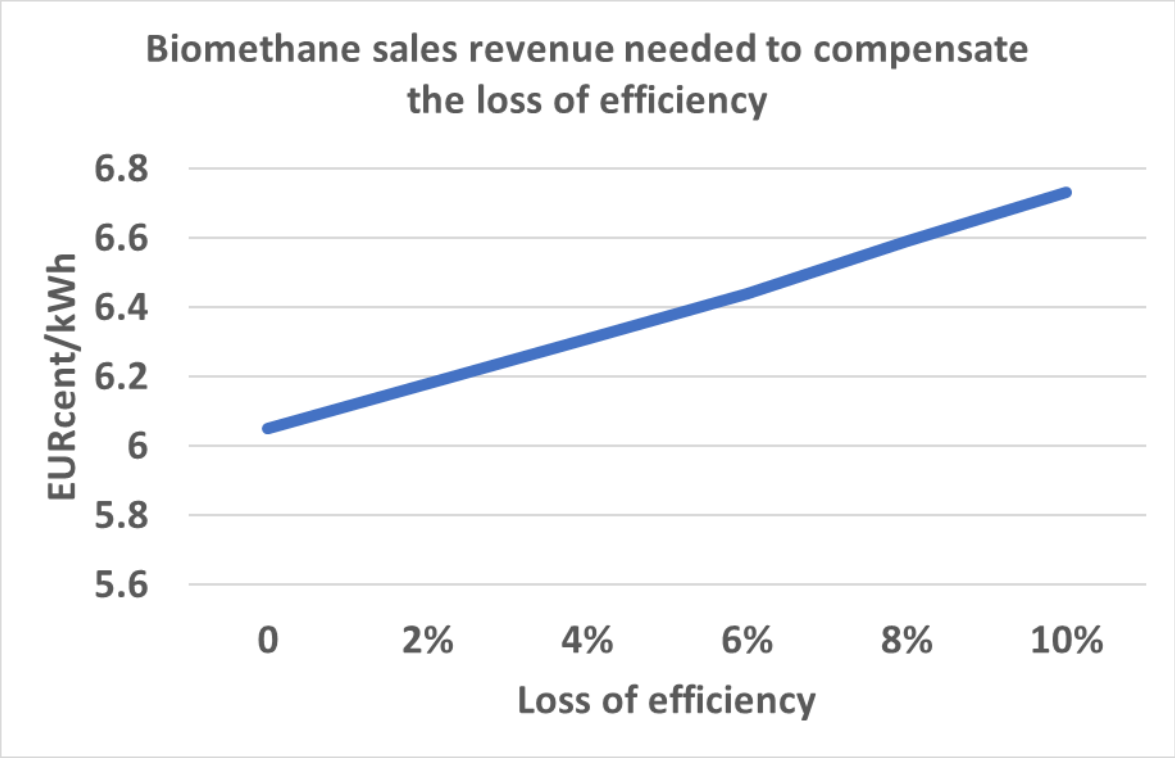


*Figure 6: Biomethane sales revenue needed to compensate the loss of efficiency*

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