

FORESIGHT INHERITANCE TAX SOLUTION

Biomethane Refuelling
Stations



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What are biomethane refuelling stations?

Biomethane refuelling stations are public access stations for refuelling heavy goods vehicles (“HGVs”) with compressed natural gas from renewable sources. The primary aim is to enable HGVs to transition from using diesel to more efficient and cleaner biomethane – an environmentally beneficial transition that should occur in just a few short years.

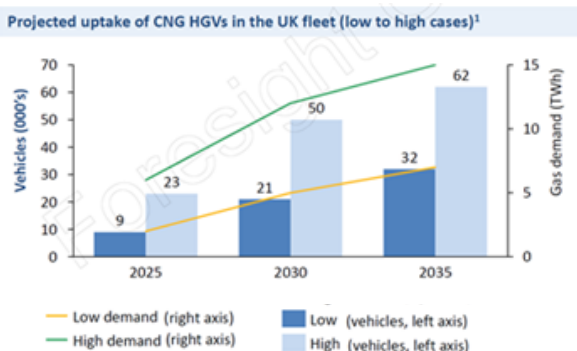
As haulage is an essential service, the stations have proven to be a robust investment and have remained fully operational with minimal impact from COVID-19. Two Foresight investment funds, including ITS, have partnered with CNG Fuels to acquire and grow a network of strategic biomethane HGV refuelling stations across the UK. CNG Fuels is the UK’s dominant supplier of renewable biomethane compressed natural gas for the UK’s truck sector.

Gas-Powered HGV Market Context

The UK is facing an urgent task to decarbonise the transport sector, particularly HGVs, in order to meet the government’s climate change commitments. Natural gas, especially biomethane, is currently considered the only technically proven and commercially viable option to achieve low emissions for HGVs, thanks to government regulatory support through the fuel duty differential and Renewable Transport Fuel Obligation (“RTFO”) scheme.

In addition to a favourable fuel duty rate, the wholesale price of natural gas is also materially lower than that of diesel currently. These provide strong financial incentives to incentivise fleet operators to replace diesel by gas-powered trucks, thereby driving increasing growth of the UK gas HGV market over the past few years.

“*Biomethane refuelling technologies reduce carbon emissions by more than 80% and lower operating costs and improves air quality.*”



The Climate Change Act 2008, as amended in June 2019, commits the UK to:

Reduce emissions of the Kyoto greenhouse gases ("GHG") by

at least 100%

of the 1990 levels, by 2050

(the “net-zero emission target”)

Contribute to global emissions reductions to limit temperature rise to as little as possible

above 2°C

Traditional diesel has been utilised as a fuel in the HGV sector, which needs displacing as the predominant fuel source to reduce emissions. There are broadly three options to replace diesel as a transport fuel for HGVs:

- Battery electric vehicles are commercially available and well-suited for light, short-range transport sectors (cars, vans and trucks up to 8 tonnes) but there are few or no options for long-haul freight.
- Hydrogen fuel cell electric vehicles are expected to provide a solution for HGVs in the long term, but the technology readiness is low, and the timeframe is uncertain.
- Methane in the form of natural gas or biomethane is currently the only technically proven and commercially available option for long haul vehicles.

Understanding the technology

CNG vs LNG

Biomethane as a transport fuel can be supplied in the form of compressed natural gas ("CNG") or liquefied natural gas ("LNG"). Our business model is focused entirely on supplying CNG due to the following:

- CNG is stored at ambient temperature whilst LNG needs to be cryogenically frozen and then dispensed at **-120°C to -162°C**. Being stored at ambient temperature also carries less risk of methane emissions vs. LNG.
- CNG provides a simple refuelling experience for the driver and is very similar to diesel refuelling, whilst LNG requires PPE and additional training.
- The range for a CNG truck is **700-850km on a single tank**. This is roughly half of what is achievable in an LNG truck, but is considered to match the demand of the UK market better than LNG.

Major customers utilising our existing CNG Biomethane Refuelling Stations include:



Key Participants

Truck Manufacturers

- Leading HGV manufacturers started supplying UK specification gas trucks (not retrofits) in 2019.
- Gas trucks are now available in the UK from Iveco, Scania and Volvo.
- Gas trucks are assembled on the same production lines as diesel trucks and are not volume limited.

Fleet Operators/Customers

- Our existing stations serve c.80% of the UK's CNG fleets. Adoption plans are being discussed with 140 fleets representing one third of all UK HGVs >32t.
- 20% of these fleets would be interested in switching from diesel to gas if the current infrastructure or vehicle availability improved.

CNG Refuelling Infrastructure

- With an existing portfolio of 6 stations we plan to expand the portfolio over the next 3 years to build an initial network of 18 stations servicing the major haulage routes across the UK.



Why Foresight is investing in biomethane

Foresight is a leading infrastructure and private equity investment manager which has been managing investment funds on behalf of institutions and retail clients for more than 35 years. Foresight manages over £7 billion of assets, 70% of which is invested in a portfolio of over 240 sustainable infrastructure assets globally.

What protection exists for investors

Integrity of supply

Renewable Transport Fuel Certificates (“RTFC”) ensure that the gas delivered to the stations is generated from renewable sources including anaerobic digestion, landfill gas and the gasification of biomass. For this investment we have managed to secure long term (up to 7 year) agreements with suppliers for RTFC gas. This is a significant driver in ensuring that customers switch from diesel to biomethane powered vehicles. Providing green fuel ensures that the business will be in a robust position when there is any further tightening of emissions legislation.

Low cost fuel

The all-in lifetime cost of CNG HGVs, the refuelling and capital cost, is now materially below that of diesel HGVs. This will help drive customers to switch across from diesel.

Fleet Transitions

Demand for biomethane is strong given that all major fleet owners have announced or are developing plans to transition from diesel HGVs to biomethane. Truck manufacturers have committed to developing these vehicles and have no incentive to invest in further development of diesel trucks. Demand is therefore fundamentally driven by HGV traffic in the UK which has proven to be robust, even during 2020.

Key risks

- Rate of adoption of gas vehicles by fleet owners.
- Production of new gas fuelled models by the other HGV manufacturers.
- Changes in fuel duty over time.
- Competition for biomethane increasing prices.

Planning for Exit

We have partnered with CNG Fuels to acquire and grow a network of strategic biomethane HGV refuelling stations across the UK. We are early movers in this growing market and intend to capitalise on this with an exit for ITS investors at some stage.

The timing of this exit is dependent on evolving market dynamics and the speed with which this market grows. In the meantime, we will look to expand the portfolio of refuelling stations, which will also facilitate market growth.

Foresight

FOR A SMARTER FUTURE

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