

Ofgem
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Ref: Ofgem – Targeted Charging Review

Dear Ofgem team,

Cory Riverside Energy (“Cory”) welcome the consultation into the Targeted Charging Review (TCR). We have focused our response on the three consultation questions (Q11 – 13, from page 74) of Ofgem’s review¹ that address the proposed reforms to Embedded Benefits currently available to smaller energy generators. We attempt to link supporting evidence where possible in the response.

Consultation Q 11. Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?

We do not support Ofgem’s proposed approach taken in the TCR. We believe the options that Ofgem have presented will be very damaging to all generators of energy in the waste and resources sector, including Cory Riverside Energy. It which will ultimately lead to:

- **Higher costs for tax payers and higher prices for consumers of waste management services;**
- **Damage to baseload energy and waste management investment;**
- **Unfairly penalising baseload generators who do not cause imbalance; and**
- **Unintended consequences – we believe the proposals are rushed.**

We expand on the reasons why in the paragraphs below:

Removing the BSUoS embedded benefit

- 1.1.** The existing rationale for the payment of the BSUoS benefit remains valid for embedded baseload energy. The BSUoS charge is reflective of the costs imposed on the network by more demand, and embedded generators should receive the negative of this BSUoS charge to reflect the benefit they offer to the grid by reducing demand and offsetting the need for grid reinforcement.
- 1.2.** Loss of BSUoS income and BSUoS charging for generators will lead to increased gate fees for waste customers, driving up costs for already financially strained local authorities and, increasing taxes for businesses and residential consumers.

¹https://www.ofgem.gov.uk/system/files/docs/2018/11/targeted_charging_review_minded_to_decision_and_draft_impact_assessment.pdf

- 1.3.** Defra recently published its Resources and Waste Strategy² setting out a long-term ambition to make the most of the nation's waste by sending more residual waste that cannot be economically recycled to Energy from Waste (EfW) instead of landfill; and upgrading existing EfW facilities so they can generate electricity more efficiently. Ofgem's decisions run counter to these aspirations by impeding investment to deliver new infrastructure and modify existing facilities. These investments are critical to closing the residual waste treatment infrastructure capacity gap, and reducing UK reliance on waste export and landfill³.
- 1.4.** The charging changes could increase the costs of financing waste projects which will also increase the cost of local authority run projects. Of particular concern will be the impact changes will have on the financial models of EfW investments, which have typically been made on the basis that the facility would receive embedded benefits across their life. These financial models have already been negatively impacted by Ofgem's decision to phase out the TNUoS demand residual for embedded generators by April 2021. Embedded generators require a stable network charging regime, and sudden changes in policy direction – such as this decision to reduce the BSUoS embedded benefit – only serves to damage investor confidence in the sector. The cost of this uncertainty will ultimately be borne by consumers – in CRE's case it will be council-tax payers.
- 1.5.** Embedded baseload generation should be considered separately from intermittent generation as it does not create balancing/constraint distortions in the network. There is now almost 25 GW_e of solar and onshore wind capacity installed in the UK. The majority of this is connected to distribution networks and has a variable energy output⁴. These technologies cause grid constraint issues which make up 37% of overall BSUoS costs that must be recovered to pay for the grid. Predictable baseload energy (24/7), such as that provided by energy from waste (EfW) generation, does not cause grid imbalance. The changes to BSUoS proposed by Ofgem will penalise EfW and anaerobic digestion projects for problems that it does not create, and fails to recognise the significant advantages these baseload generators provide to the system, particularly in the context of increasing wind and solar renewable energy generation.

Applying balancing charges to smaller embedded generation

- 1.6.** Under the TCR proposals generators could see a new balancing charge levied as well as seeing the BSUoS embedded benefit removed. Levying the BSUoS charge on embedded generation would create unfair competition with interconnected energy: in Europe, balancing charges are typically levied solely on demand customers, and not generation. We question then whether it is equitable to apply balancing charges to embedded generators that are not currently levied on energy flowing into the UK from interconnectors. This would – all else being equal – result in an unfair advantage for interconnectors across the UK energy system, including those that derive energy from EfW.

² Defra Waste and Resources Strategy. See [here](#).

³ Defra Waste and Resources Strategy. See [here](#). Page 79

⁴ <http://futuresmart.ukpowernetworks.co.uk/wp-content/themes/ukpnfuturesmart/assets/pdf/futuresmart-flexibility-roadmap.pdf>

Proposed implementation timeline – either 2020; 2021; or phased in between 2021-2023

- 1.7.** An estimation of BSUoS embedded benefits is factored into market hedging decisions made by generators over a time horizon stretching out as far as 24 months into the future. The removal of BSUoS benefits and the proposal to charge BSUoS to embedded generators by April 2021 will penalise generators that have already committed to wholesale market decisions. These generators had a legitimate expectation that they would not be penalised for using the distribution network to distribute electricity to customers over that period.
- 1.8.** We believe that there are serious shortcomings under the TCR proposal, and that significant amendments are required. Any changes – if eventually brought forward – should be delayed until 2021 at the earliest, and then phased in over a number of years.

Consultation Q 12. Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage? Which of the embedded benefits do you think should be removed as outlined in the document?

- 1.9.** Yes. There should be no further removal of embedded benefits.

Consultation Q 13. Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?

Damage to investor confidence in renewable energy

- 1.10.** The growth of decentralised energy in the UK has been far faster and more successful than anyone envisaged. One of the primary reasons for this is that bankability of proposed projects has been significantly supported by the 'secure' income offered through 'embedded benefits'. This helped counter such projects' exposure to floating wholesale markets for the price achievable for power generated, helping investors to get comfortable to move forward. As these revenue streams are removed, there is increasing risk to such investment in renewable energy e.g. EfW in the UK. This has contributed to the UK dropping down EY's index of Renewable Energy Country Attractiveness⁵ - with one of the primary reasons given is of regulatory and policy uncertainty, often announced at short notice.
- 1.11.** Ofgem's focus in the TCR consultation document is centred on how to use the network to minimise customer bills. This is a sensible goal; however, it is a narrow goal. Ofgem's approach would be strengthened by acknowledging that network charging sets a critical signal to bring forward investment in new embedded generation. This is recognised across all major Government policy platforms⁶ as: being crucial to ensuring the resilience of the UK's electricity grid; and underpins ambitions to deliver the government's Clean Growth Plan and to achieve our decarbonisation targets under the Climate Change Act. Elements of what is being proposed in the TCR work directly against these objectives. In the case of embedded EfW, the goal also ignores the substantial additional costs that will be

⁵ <https://www.ey.com/uk/en/industries/power---utilities/ey-renewable-energy-country-attractiveness-index>

⁶ https://www.nic.org.uk/wp-content/uploads/CCS001_CCS0618917350-001_NIC-NIA_Accessible.pdf

incurred by local authorities and tax-paying businesses and residential consumers as a result of higher waste treatment costs.

Lack of certainty in the economic assessments

1.12. Paragraph 6.11 in the consultation document makes a bold statement: *“The BSUoS Embedded Benefits directly increase the BSUoS that consumers have to pay (by about 20% in total)”*. Additionally, the document makes a significant assertion that reforms to residual charges and embedded benefits could lead to total savings to consumers of between £5 billion and £7.6 billion, in the period to 2040. Economic impact assessments that model the quantitative impacts on consumers and wholesale market prices so far into the future, and are based on assumptions about the future that inherently lack certainty, and any policy seeks to rely on such analysis should recognise this uncertainty. Policy should also recognise the narrow way in which such economic analyses are constructed – for example ignoring the unintended increase in waste treatment on local authorities, tax payers and consumers.

1.13. For example: the consultation document - Annex 5, Page 6⁷ implies that current BSUoS embedded benefits distort Capacity Market efficiency and drive up overall costs; and Figure 1 below is an extract from Ofgem’s backing data used to support the case for reforms, predicting cost savings from lower Capacity Market (CM) payments as soon as 2020. Predicting savings from the CM when it is currently suspended pending a review into State Aid compatibility seems disingenuous. This obvious flaw in the modelling should be revisited. Ofgem has got its economic modelling wrong before and we would urge caution against making the same mistake again.

Difference between Baseline and TGR & Full BSUoS Reform

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
CM payments	0	-7	-4	0	426	443	198	359	161	335	271	410	442	342	299	410	192	490	338	312	244	400
Wholesale cost	0	-51	-108	-224	-50	-90	-92	114	4	207	7	-89	10	-119	-108	54	-11	243	112	121	-132	165
CFD payments	0	-20	-2	20	10	17	36	12	50	20	78	144	115	182	217	178	229	197	220	224	269	242
Other embedded benefits	0	-3	-1	0	1	1	1	0	0	-2	1	1	0	5	7	6	7	3	0	-2	3	1
TDR payments	0	-232	-420	-450	-433	-437	-442	-446	-454	-461	-465	-474	-486	-500	-517	-532	-553	-563	-575	-590	-590	-599
Supplier BSUoS charges	0	-6	-12	-14	-16	-17	-12	-13	-17	-19	-21	-25	-21	-16	-13	-11	-6	-5	-2	1	1	5
Supplier BSUoS avoidance payments	0	-97	-144	-152	-162	-164	-167	-173	-189	-210	-221	-234	-234	-216	-209	-203	-188	-194	-187	-182	-175	-175
Total	0	-416	-692	-820	-225	-249	-479	-147	-445	-129	-350	-269	-174	-323	-325	-99	-331	170	-95	-117	-380	39

Figure 1 - Ofgem backing data for BSUoS "Consumer Costs"⁸

1.14. The consultation document states that Ofgem will consider the conclusions from a newly formed BSUoS workgroup, and decide if other changes should be taken forward. With this work in train we believe changes to BSUoS embedded benefits and levying a new BSUoS charge aimed directly at embedded generators is premature and rushed, and fails to reflect the complexity of the ongoing BSUoS review.

⁷ https://www.ofgem.gov.uk/system/files/docs/2018/11/annex_5_-_reform_to_non-locational_embedded_benefits.pdf

⁸ <https://www.ofgem.gov.uk/publications-and-updates/targeted-charging-review-minded-decision-and-draft-impact-assessment>

Summary

We do appreciate that the charging regime does need to be reviewed periodically. However, network charging reform is a challenging and complex exercise, and decisions must not be taken lightly. It is clear from the proposed changes that small, decentralised baseload energy generation is being penalised, despite providing significant advantages to the system, as well as providing other vital services to the UK economy that are not considered in the analysis. Our industry, which provides essential waste treatment and disposal services to households and businesses, could be severely impacted. We believe the changes will impede investment in new generation projects, which are essential to a smarter energy and resource management system, as well as helping the UK government achieve the ambitions set out in the recently launched Waste and Resource strategy. We therefore ask that Ofgem re-consider its TCR proposals.



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Dear Ofgem team,

RE: OFGEM – TARGETED CHARGING REVIEW

Western Riverside Waste Authority was established in 1986 as an autonomous statutory local government body to undertake the waste disposal functions prescribed by the Local Government Act 1985. The Authority assumed responsibility for waste treatment on behalf of four London boroughs: Hammersmith & Fulham, Lambeth, Wandsworth and the Royal Borough of Kensington and Chelsea.

In 2002 the Authority entered into a Public Private Partnership (“PPP”) agreement with Cory Riverside Energy (“CRE”) for CRE to manage all its waste. The PPP agreement included the construction and operation of an Energy from Waste (“EfW”) Facility by CRE, to treat the Authority’s non-recyclable waste. As part of that process the Authority took an element of risk on the wholesale value of electricity.

The Authority agrees with the key points outlined in Cory’s response, that, if introduced, Ofgem’s proposals would:

- lead to higher costs for council tax payers;
- hinder waste management investment; and
- unfairly penalise baseload generators who do not cause imbalance.

In December 2018 the Government published its Resources and Waste Strategy (“the Strategy”) which highlights its determination to increase recycling levels and reduce the amount of non-recyclable waste going to landfill. The Authority estimates that Ofgem’s

proposals, if implemented, would cost its residents around £1 million a year. That is £1 million pounds which the Authority and its constituent councils will have to find from other waste budgets and will therefore reduce their ability to support new recycling initiatives. This additional cost would be in addition to the estimated £1.5 million a year that Ofgem's decision to phase out the TNUoS demand for embedded generators by April 2021 will cost this Authority.

In 2000, Energy from Waste technologies treated around 10% of local authority collected waste in England; that figure is now at 40%. This increase has resulted in a corresponding decrease in the amount of waste going to landfill and produced massive reductions in greenhouse gas emissions as a consequence. The biodegradable content of waste means that EfW, in all its forms, accounts for around 10% of the UK's renewable electricity, offsetting the use of fossil fuels and other virgin resources. Also, unlike many other forms of renewable energy, EfW is able to provide reliable and secure baseload generation as it is not affected by wind, tide or season and it contributes to the UK's energy security policy by offsetting the need for imports.

The Strategy recognises that England will still need to invest in new energy recovery treatment capacity for its food waste and non-recyclable waste if it is to meet the target, by 2035, of reducing the amount of municipal waste going to landfill to 10% or less. As CRE highlights in its response, investors in major, strategic infrastructure, such as EfW, need secure financial models and a key part of that is a stable network charging regime. Sudden changes in policy direction – such as this decision to reduce the BSUoS embedded benefit – will only serve to damage future investor confidence in the sector.

As a public body itself the Authority supports the periodic review of charging regimes, but such reviews need to recognise the Government's wider policy framework. Ofgem's current proposals seem to be a blunt instrument that take no account of the difference between baseload generators, such as EfW, which do not cause grid imbalance and variable generators, such as wind and solar, which do.

The Authority therefore supports CRE's view that the proposed changes would unfairly and unjustifiably penalise exiting EfW generators and could impede investment in the new EfW infrastructure that the country needs. The Authority therefore agrees with CRE's request that Ofgem re-considers its proposals.

Yours faithfully,



MARK BROXUP
GENERAL MANAGER