

Estover Response to Ofgem Open Letter: charging arrangements for embedded generation

Estover develops, finances and manages virgin biomass CHP plants.

The first of Estover's plants, Speyside CHP (14.99MWe) commissioned in March 2016; the second, Cramlington CHP (c.28MWe) will commission in March 2017; the third, Sandwich CHP (c.28MWe) will commission in Q2 2018.

Estover welcomes the opportunity to respond to Ofgem's 'Open Letter: charging arrangements for embedded generation'.

Estover believes that (i) the changes proposed are both overly simplistic and inappropriate, and if implemented are likely to cause distortions and problems in other areas; that (ii) the way in which the changes have been proposed seem designed to benefit specific market players; and that (iii) if enacted will come as a further blow to manufacturing industry and to investor confidence in low-carbon embedded generation.

The proposed changes are overly-simplistic. The basic justification for reform, namely that TNUoS demand residual payment exists only to recover "fixed/sunk" costs, is incorrect. The payment is a recovery mechanism required because there are accrued operational costs on the network, which have not been allocated to specific users.

The proposed changes are inappropriate because generators or consumers should not pay for services they do not use, nor should they be charged for costs to which they do not contribute. Estover's plants do not use the transmission network, so should not incur the costs of maintaining it.

Instead of these hurried, short-sighted proposals Ofgem should conduct a wider consultation to review and restructure network charging. The current proposals are likely to cause distortions elsewhere – shifting from large and small generators, and creating competitive distortions between different means of demand reduction.

In principle we contend that the changes and the manner in which the changes are being proposed send a negative signal to investors. The perception is that the proposals are designed to benefit a small group of specific market players (large carbon intensive generation) at the expense of embedded generation (generally smaller, lower-carbon generators) and manufacturing industry.

All three of the Estover biomass projects have been financed on the basis of embedded benefits being available. Removal of the TNUoS demand residual payment is a retrospective change to an established methodology. This would be a further blow to investor confidence in an increasingly unstable sector still reeling from the retrospective LEC removal in 2015.

Estover Energy
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