



Mr Dermot Nolan  
Chief Executive Officer  
Ofgem  
9 Millbank  
London  
SW1P 3GE

2<sup>nd</sup> September 2016

Dear Mr Nolan

**Open letter: Charging arrangements for embedded generation – Dated 29<sup>th</sup> July 2016**

PBS are also a signatory to the letter sent to you by the wider embedded generation community. In addition to the points raised in that letter I want to point out specific impacts your proposals on TNUoS will have on us as developers and operators of embedded generation (EG), as well as the potential impact on the wider transmission network.

The media portrayal of our sector has painted us as operators of heavily polluting diesel generators, this cannot be further from the truth. We specialise in developing EG power response sites utilising lean burn natural gas reciprocating gensets with ultra-low emission (<250mg/Nm<sup>3</sup> of NO<sub>x</sub> @ 5% O<sub>2</sub>). This standard is fully compliant with the soon to be introduced Medium Plant Combustion Directive (MPCD). These plant have an efficiency of 42% (based on HHV), which on the face of it is lower than the typical 60% efficiency of combined cycle gas turbines (CCGT). However, when you consider that our gensets achieve full efficiency with 5 minutes of start-up, compared to a CCGT which has to work up from an initial typical efficiency of 30% to 60% of a number of hours, as it builds up steam, means that over a typical annual cyclical operational mode our gensets emit considerably less CO<sub>2</sub> than an equivalently sized CCGT.

PBS secured a total of 49MW of CM contracts in the 2014 and 2015 CM auctions. Currently we have secured funding, and are building, 26MW of that capacity. We are also finalising legal agreements with Lombard's to secure the debt funding to enable us to develop the remaining 23MW of capacity. Lombard's are now holding off completing the deal for this loan until there is 'clarity' on the future of TNUoS payments to EB. The implication is very clear, if TNUoS payments are not available at today's TNUoS rates beyond 2019-20, then the offer of the loan will be withdrawn.

We chose Lombard as our funders because they were the most 'enthusiastic' lenders in the market. If they are not prepared to lend to us under the new TNUoS payment regime, we are confident we will not find any other funders for our projects. That would represent a loss of 23MW or 46% of our CM capacity, that would not be built.

I am sure many of the other EB developers that won CM contracts in the 2014 and 2015 auctions are in a similar position. There is a real risk that significant quantities of 2014 and 2015 CM EG contracted capacity will not get delivered if TNUoS reform is delivered in the manner outlined in your letter, or proposed in CP264 or CP265.

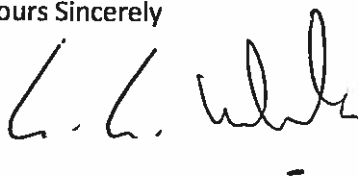
The proposal to reform TNUoS payments as proposed in your letter, CP264 and CP265 seems to contradict, indeed undermine other signals being sent to the CM community. Specifically, the need for more capacity (illustrated by increased capacity being procured in the 2016 CM auction) and earlier capacity (the introduction of an 'early' CM auction to deliver capacity over the 2017/18 winter). With very short development timescales EG is best placed of all technologies to deliver on these two urgent requirements. By putting funding for 2014 and 2015 CM EG in jeopardy you are killing of the major source of capacity that can deliver on these two requirements.

We do recognise that there needs to be reform of TNUoS, exponential increases in this payment is unreasonable. We also recognise the need to send a strong signal to future EG that they cannot rely on TNUoS payments, to ensure a level playing field for all generators in the forthcoming CM auction.

However, the parameters you suggest in your letter of the 29<sup>th</sup> July 2016 are too drastic and too soon. As we have shown in this letter you are risking causing a significant hiatus in the delivery of extra capacity in the very years this country need that capacity most.

We hope you will re-consider the proposals outlined in your letter dated 29<sup>th</sup> July, rather than accept a hastily drafted proposal prepared by the CUSC, we would urge Ofgem to undertake a Significant Code Review, so that the full impact of these changes can be carefully considered.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'G. L. White', with a small horizontal dash below it.

Graham White

**Director**