

23 SEPTEMBER 2016

EMBEDDED BENEFITS – VIRIDOR RESPONSE TO OFGEM'S 'OPEN LETTER' CONSULTATION

Introduction & Context

Europe and the UK have thrown away old thinking about 'waste' and are increasingly recognising its value as a resource. Public and private sector organisations are transforming waste to create quality recycled materials and vital renewable energy from what remains, working in increasingly innovative partnerships to deliver greater resource efficiency and increased productivity.

Part of the Pennon Group, Viridor is investing £1.5 billion in 'next generation' recycling and energy recovery infrastructure, including a network of eleven world-class energy recovery facilities (ERFs) to align UK 'waste' and energy policy.

In March 2016, the Department of Energy and Climate Change (DECC) requested that the Office of Gas and Electricity Markets (Ofgem) review the embedded benefits system generators receive in return for supplying electricity to regional distribution networks and avoiding the national transmission network, used by large-scale coal/gas plants and onshore/offshore wind farms.

With the number of local and community generation projects growing sharply, there is now c.25GW of generation capacity connected to the distribution networks. This has created concern in Government that distributed generation has displaced large-scale generation assets such as coal but mainly gas (CCGT), which are considered the most reliable sources of generation and provide the bulk of the UK's electricity. In particular, the big, centralised energy producers have argued that current charging arrangements are distorting investment decisions and leading to inefficient outcomes in the capacity market. The rise of embedded generation has also meant some regions are now net-exporters of electricity, which has impacted the flow of electricity in the transmission network.

Ofgem argues distributed generation revenues have been increasing and that, therefore, current embedded benefits are over-rewarding regional generators. Whilst this may be the case for diesel generators who are eligible for both embedded benefits and capacity market payments, encouraging greater uptake of the technology despite its environmental impact, a rush to reform will have unintended consequences on renewable distributed generation including UK recycling and waste services, impacting BEIS, DEFRA, DCLG and other policy programmes.

Distributed benefits were and remain an integral part of the business case for Viridor's (and others in our sector) decision to invest £1.5bn in national environmental infrastructure. Their removal would have a significant impact on that business case and undermine future investor confidence in vital UK recycling and energy recovery infrastructure.

For further information, contact:

Dan Cooke

Director of External Affairs | Viridor
01823 721 469 | 07801 172 307
dcooke@viridor.co.uk
viridor.co.uk | @ViridorUK

Martin Grey

Head of Public Affairs | Pennon
0141 773 5501 | 07717 797 133
mgrey@viridor.co.uk
communications@viridor.co.uk

What's more, embedded benefits are in fact avoided costs which arise as a result of local generation delivering power near to where it is consumed, and therefore avoiding the costs and losses associated with the transmission system

VIRIDOR'S RESPONSE:

- Ofgem's review is considering how and when changes could be implemented and whether transitional arrangements are required. The implications of reducing or withdrawing altogether embedded benefits are significant. It is estimated that if changes are implemented as detailed in Ofgem's review, it could result in an increase of £170 million in energy costs to industrial manufacturers who generate their own power.
- Distributed benefits were and remain an integral part of the business case for Viridor's decision to invest £1.5bn in essential national environmental infrastructure. The waste sector delivers embedded baseload and therefore takes only its reflective share of embedded benefits (unlike a peaking plant or intermittent technologies which seek to extract the peak incentives, or create the need for incentives).
- Long term investment has been made in essential infrastructure to deliver Government landfill diversion policy objectives, and high reinforcement costs have been paid for connections to grid. A grandfathering arrangement would therefore be required were the removal of benefits in this area to be considered appropriate in the future.
- Their removal would have a significant impact on that business case and would undermine the viability of the operational national environmental infrastructure, and also future investor confidence in vital UK recycling and energy recovery infrastructure.
- Their removal risks destabilising not only UK 'waste' policy and targets, but also wider policy programmes across BEIS, DEFRA, and DCLG.
- For example, waste services companies would need to consider the increased costs of landfill aftercare in the event that economics for landfill sites (including the renewable power generation) may change without embedded benefits. These costs would need to be passed on to customers, including local authorities with the least ability to pay (i.e. those with the greatest reliance on landfill disposal due to lack of available alternative treatment infrastructure). There is also a likelihood of having to pass on costs to local authorities in the event that the withdrawal of embedded benefits impact sharing mechanisms in long-term contracts relying on energy from waste treatment.
- The removal of embedded benefits would undermine competition and place more power in the hands of 'big power'.

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dcooke@viridor.co.uk
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communications@viridor.co.uk

- Their removal would also undermine energy balancing, regional economic development policy and the ability of progressive local authorities to form innovative 'smart city' partnerships, including energy services companies to drive investment, regeneration and economic growth.
- The move will lead to the loss of skilled and professional jobs and the slowing of energy apprenticeships as national environment infrastructure operators further reduce operational costs.

VIRIDOR: TRANSFORMING WASTE

- Part of the FTSE 250 Pennon Group, Viridor's purpose is to give the world's resources new life.
- Every day, Viridor takes what British homes and businesses throw away and transforms it into essential quality materials, resources and energy for customers across the UK and globally.
- Viridor works in partnership with over 150 local authorities, public bodies and supports Britain's leading businesses. The company is investing £1.5bn in vital low carbon infrastructure and has the UK's largest network of 327 advanced recycling, energy recovery and landfill diversion facilities.
- Viridor's manages over 7 million tonnes of recyclates and resources each year for its customers, of which 2.4 million tonnes are recycled. With eight energy recovery facilities and three more under construction across the UK city-regions, Viridor currently produces enough energy to power over 330,000 homes.
- Viridor makes a substantial contribution to the green economy through investment in people and skills, employing over 3,200 people at 318 facilities. In addition to professional, fast-track graduate, skilled, apprentice and new entrant programme, the company operates a foundation management degree and delivered 5,887 training days in 2014/15.
- Viridor leads technology and innovation in the sector, investing in progressive opportunities such as the DECC sponsored Viridor and Highview Power energy storage project and the UK's most advanced glass recycling facility.
- Viridor is a leading member of the Green Alliance Circular Economy Task Force, the All-Party Sustainable Resources Group and holds a three star ranking in the Business in the Community Corporate Responsibility Index.

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- Viridor has won a series of national and international awards including the National Recycling Award for Local Authority Innovation; Best Private Sector Initiative at the Scottish Resources Awards; CIWM Award for the Best Run UK Waste Management Facility; the Industry Award for Excellence for Design of a Recycling or Waste Management Facility and the CIWM Resource Learning & Development Award for Education.

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