



16th August 2016

Frances Warburton
The Office of Gas and Electricity Markets
9 Millbank
London
SW1P 3GE

Units 1-2, 37 Chartwell Road,
Lancing Business Park, Lancing
West Sussex BN15 8TU
Telephone: 01903 762020
Fax: 01903 762030
www.rabbitgroup.co.uk

Dear Frances

Response to Ofgem Open Letter dated 29th July 2016 Relating to Charging Arrangements for Embedded Generation.

We welcome the opportunity to respond to your open letter referenced above regarding your request for stakeholders to input views to assist in your thinking and decision making process relating to the current benefits received by embedded generators both in general and in particular with relation to those associated with TNUoS charges.

We are a small family owned company which operate in the waste and recycling industry, a major part of our business involves operating our privately owned and bank financed electricity generating station which is fuelled from certain elements of the waste we collect.

Our generating station is connected to the distribution network at 11kV and has a rated generation capacity of 5.05MWe with approximately 1.14MWe of this being required onsite to power the generating station and the remainder available for export into the distribution system.

When we initiated the build of the generating station in 2007, we agreed finance with a banking institution based on business plans and forecasts which included various revenue streams with an element of that being embedded benefits. As an aside we had also included LEC's in these projections which have now clearly ceased and this has already had a negative financial impact upon us.

The possibility of losing Triad receipts, along with other embedded benefits and additionally the consequence that the removal of these may also lead to additional use of system charges being levied on us would impact very heavily on our ability to continue to service bank debt and therefore the financial viability of our business.

Our bank facility, to build the power plant and the associated bank covenants have been agreed on forecasts and cash-flows that assumed and were dependent on revenue streams from these Triad receipts and embedded benefits. We therefore strongly believe that projects which received bank funding, based on the current legislation and regulations that existed at the time of funding, should benefit from grandfathering of Triads and embedded benefits.

The loss of this revenue is likely to result in the breach of covenants and failure to meet bank loan repayments, with the consequence of our business being pushed into financial distress and uncertainty.

We believed it prudent to advise our bank of the potential risk and current uncertain position and also sent them a copy of your open letter as in effect they are also a stakeholder, they have responded as below clearly outlining their position;

"I will discuss the OFGEM letter with our legal team – as you'll probably expect, the Bank tends to be fairly reserved when it comes to responding to these kinds of letters, but I will see if there is any scope to do so. I agree that the credit assessment when considering granting the facilities would have included all of the income streams, including embedded benefits, and this would have fed through to the repayment terms, view on risk, setting of covenants etc."

Our intention in responding to your open letter is to bring to your attention that there are small generating stations operating on very tight margins which are hugely below the 100MWe threshold that you term as small generation. Given the scale and nature of our business it is not possible for us to absorb these potential revenue losses, whereas the effect on larger generating stations would be comparably much smaller.

We are not a large enough organisation or well enough informed to be able to offer strong arguments based on industry codes, regulation and legislation but we are able to try to help you understand and put into context the effect of the loss of embedded benefits to small generating stations, certainly those operating now and potentially those planned.

On the assumption that you determine embedded benefits need to be modified or removed our proposed options for you to consider would be;

1. The definition of a small generator is down rated to a lower level and that those new small generators were still able to receive embedded benefits. This limit could perhaps be in the region of 25MWe, as we would envisage that plants of that size and below would be in a similar financial position as ourselves.
2. That the eligibility to qualify for receiving embedded benefits could be based upon the connection voltage of the generating station, my understanding is this would also limit the generating capacity of stations that could be eligible as larger stations would technically need to connect at the higher voltages.

3. To at least protect the operational or in build stations below a certain capacity or connection voltage, that grandfathering of the existing embedded benefits for those stations is introduced.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Mick Adams', with a long, sweeping flourish extending to the right.

Mick Adams
Managing Director