

13 April 2017

Andrew Self
Head of Electricity Network Charging
Ofgem
9 Millbank
London SWP 3GE

Dear Mr Self,

We are writing to set out our views on Ofgem's minded to decision and draft Impact Assessment of proposals to change electricity transmission charging arrangements for Embedded Generators.

The Environmental Services Association (ESA) is the trade association representing the UK's resource and waste management industry. Our member companies are helping the UK move towards a circular economy by collecting, sorting and treating waste to recover materials and generate energy whilst protecting the environment and human health.

The UK waste and resource management industry currently generates almost 12,000 GWh per year of baseload electricity through Energy from Waste (EfW), landfill gas and Anaerobic Digestion (AD), providing 11% of the UK's renewable electricity.¹ These technologies play an important role in developing the UK's resource efficiency and security by recovering energy from material that would otherwise be wasted, and in diverting residual waste from landfill and thereby reducing greenhouse gas (GHG) emissions. Indeed the industry has already reduced its GHG emissions by almost 70% since 1990.²

Whilst we understand that in a changing landscape, charging arrangements for the transmission network must be reviewed, the process by which Ofgem has reached its minded to decision is flawed.

¹ Calculations based on BEIS (2016), [Digest of United Kingdom Energy Statistics](#), p.192

² <https://www.theccc.org.uk/charts-data/ukemissions-by-sector/waste/> [accessed 22 September 2016]

We are concerned that Ofgem has not undertaken a fair, systematic and comprehensive review of the charging arrangements for embedded generators, and therefore should delay its decision until such a review can be carried out.

Poor governance

Firstly, there appears to be a lack of objectivity in the Connection and Use of System Code (CUSC) industry process. Six of the nine members of the CUSC panel represented the interests of transmission generation, whereas distributed generation received no representation at all. This runs contrary to the Government's aim of ensuring the energy market functions fairly for all consumers when the big energy companies may be using the process to strengthen their market position. The panel should reflect the interests of all stakeholders.

On top of this, the consumer representative abstained from voting on the grounds that there was insufficient information available to assess the impact on consumers. The consumer representative's role is vital, given that the changes will ultimately impact consumers for better or worse. Ofgem should have ensured that the consumer representative was equipped to make an informed decision by presenting a comprehensive and accessible impact assessment.

Changes should therefore not be made until the Modifications can be reviewed by a representative and fully informed panel.

Rushed decision

The review process has been far too rushed to ensure the decision reached is the right one. The CUSC Modifications industry consultation involved 5,300 pages of information with just ten days given to submit a response. As discussed previously, the CUSC panel pushed ahead with a vote despite the consumer representative not having all the information required to make an informed decision.

The haste with which the review has been conducted is reflected in the incomplete analysis. Costs to consumers are not adequately estimated, there is no examination of the effect on the long-term costs of the transmission and distribution networks, and there is no analysis of the impact on winter supply margins.

Furthermore, the decision and implementation timetable are inconsistent with the development of the Government's Industrial Strategy. Network charging is surely a key element of delivering affordable energy and clean growth, one of the pillars identified in the Industrial Strategy green paper. Despite this, Ofgem is making drastic changes to the charging regime before the

Government has commissioned a review, as announced in the green paper, which will look into how markets and networks can operate as efficiently as possible in a low-carbon system.

The final decision should therefore be delayed until the impacts can be assessed more thoroughly and in conjunction with other significant changes to energy markets and networks.

Insufficient analysis

Not only are there holes in Ofgem's analysis of the impact on energy and consumers, but there is no consideration of how the changes would affect different industries generating energy from different sources of fuel.

We estimate the proposed reduction in embedded benefits will cost the waste and resource industry £100 million. Much of this cost will ultimately be borne by local authorities who are already struggling to maintain their services with substantially shrunken resources. Ofgem has not taken this impact into account.

It is also unfair to say that all embedded generation has a large financial incentive to locate on the distribution system, despite it possibly not being the most efficient place to locate (p.14). The definition of 'efficient' for energy generated from waste is very different from other forms of power generation, since by necessity it is located close to waste generation and thereby energy demand as well. It is therefore being penalised for something over which it has no choice as an essential service seeking to operate in the most efficient way.

Moreover, the proposals are likely to contradict the Government's and the industry's waste and resource aims of diverting residual and organic waste from landfill into energy recovery by undermining current and future investment. Already the investment climate for EfW has weakened due to the removal of Levy Exemption Certificates (LECs) in 2015. These proposals create additional uncertainty which could lead to a waste treatment capacity crisis.

Ofgem should therefore undertake analysis of the wider implications of its proposals such as those on local authorities and waste management.

Conclusion

ESA is concerned that the review process is biased against distributed generation, that it has been too rushed to ensure it is the right decision, and that adverse implications for certain sectors and their customers have not been fully understood or recognised.

We appreciate that undertaking a Significant Code Review (SCR) would require a longer time scale, but looking at TNUoS payments in isolation risks unintended consequences for the market. **Given that the changes could have serious repercussions and may eventually conflict with the Government's emerging Industrial Strategy, we strongly urge Ofgem to reconsider undertaking a SCR.** A longer time scale would allow Ofgem to carry out a robust, systematic impact assessment that takes into account the implications involved in making changes, and can be reviewed independently.

We would welcome the opportunity to discuss these issues further with you and look forward to your response.

Environmental Services Association

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