



To whom it may concern:

Multifuel Energy Limited is a 50:50 joint venture partnership between SSE plc and Wheelabrator Technologies Inc. The JV was set up to develop, build own and operate waste fired power plant of up to 100MWe export capacity that use waste derived fuels prepared by others (including from local authorities) with the overall objective of providing low carbon energy. It currently has one 70MWe operational plant Ferrybridge Multifuel Energy Limited.

SSE is one the UK's leading energy companies. SSE is involved in the generation, transmission, distribution and supply of electricity; and is the UK's largest non-nuclear electricity generator operating a diverse generation portfolio across the UK and Ireland including gas, oil, coal, biomass, hydro and wind.

Wheelabrator Technologies Inc. is a world leader in the safe and environmentally sound conversion of municipal solid waste and other renewable waste fuels into clean energy.

#### General feedback

#### **1. Do you have any comments about the overall process of this consultation?**

By releasing the consultation with a strong recommendation it would appear that the outcome has already been determined. By using the CUSC panel to drive the modifications this creates the perception, real or otherwise, that the outcome is being driven by Transmission connected generators rather than looking at the Electricity Market as a whole. The reality is that Transmission connection generation businesses have also had equal opportunity to build more embedded generators in the last few years and by not doing so other developers have grabbed the opportunity whether it be for low carbon and renewables or peaking plant.

We would generally agree that Triad rates have increased disproportionately in recent years particularly with the addition of the Capacity Market. However, other embedded benefits have also been removed, most notably LECs, and as these benefits continue to be eroded a tipping point could be reached where embedded generators have to pass costs on somewhere such as to local councils through higher gate fees for waste or they close down creating tighter supply margins in winter peaks and potentially much higher Capacity Market prices which may not be to the consumer's benefit.

Any significant differences on the locational element of a new benefit/charge could end up making waste more/less expensive to recover depending on where the plant is located and could, for example, lead to waste being transported longer distances to plant with cheaper operating costs. We



would therefore suggest that there is no locational cost element for any plant built before 2017.

**2. Do you have any comments about its tone and content?**

Some of the language includes throwaway comments where it suits the argument against small EGs that imply that embedded benefits are excessive such as the comment in 5.13 that BSUoS can be as high as £47/MW and implying that this is the norm which is certainly not the case. We are also not aware that you can "chase high periods of BSUoS" as the information is not available real time which again implies embedded generators have an alternative option to Triads

**3. Was it easy to read and understand? Or could it have been better written?**

For the non-industry Regulatory specialist a shorter more concise presentation of the arguments and facts would have been helpful.

**4. Were its conclusions balanced?**

As an embedded generator it would appear to have been made with specific objectives in mind to reduce the TNUoS benefit and in so doing dismissing any unintended consequences or future distortions these changes may ultimately cause on the electricity market.

It was noted that any information provided by Cornwall Energy seemed to be readily dismissed yet figures provided as an "estimate" by National Grid for 2013/14 were taken at face value with no obvious independent scrutiny.

The increased cost to consumers of the increasing TDR charge was clearly stated but it was unclear whether the reduction in peak energy prices achieved by smaller EGs running "out of Merit" and lower than expected CM strike price allegedly caused by the TDR revenues was included in a balanced assessment. Ultimately if smaller EGs do not run for winter peaks then the actual electricity price for the whole market will be set by more expensive Transmission connected units which may end up increasing costs to consumers.

**5. Did it make reasoned recommendations for improvement?**

No further comment

**6. Any further comments?**

None



## **Detailed Consultation Questions**

Our responses to the specific questions stated in the Consultation are set out below where we have comments to make:

**Question 1:** *Do you agree with our problem definition and that the Transmission Network Use of System (TNUoS) Demand Residual (TDR) payments to sub-100MW Embedded Generation ("smaller EG") are distorting dispatch, wholesale price, the capacity market (CM) and that they pose an increased cost to consumers?*

In general we agree with the problem definition but believe that this review should have been an integral part of the Capacity Market development and design before the first Auction took place to avoid a double benefit for embedded generators that is then largely taken away after the third Auction (and most likely the fourth for the October 2021 to September 2022 period) has already taken place. This in its own right has created some of market distortions which OFGEM is now seeking to fix by penalising the embedded generation sector.

**Question 2:** *Do you agree that rising TDR payments to smaller EG is a problem which needs to be addressed?*

We agree that TDR payments have risen disproportionately to the market and they have clearly driven some behaviour that was not expected in the embedded generation sector. However, this should not be seen as a reason to heavily penalise those smaller EGs that were built or went to financial close even before the Capacity Market mechanism became a reality such as Ferrybridge Multifuel Energy.

**Question 3:** *Do you agree with our interpretation of the applicable CUSC objectives?*

No Comment.

**Question 4:** *Do you agree with our assessment against the applicable CUSC objectives and statutory duties? Please provide evidence for any differing views.*

No Comment

**Question 5:** *In our assessment against the objectives, do you believe there are any relevant assessments we have not taken into account?*

Given the ever increasing amount of embedded generation the assessment needs to consider in much more detail the possible behaviour changes that might arise across the various types of generator rather than more or less assuming a business as usual. For example, an energy from waste plant and a biomass generator operates at base load but there will be regular occasions when maintenance work will be deferred to the weekend during the winter months particularly where there is a possibility of a Triad. Furthermore, the



plant cannot be relocated once built so any future costs based on "locational" charging would be particularly unfair to impose retrospectively.

Clearly until a post Triad market settles down and the Capacity Market contracts commence it is virtually impossible to predict how this might affect both market prices and operational availability during periods of high system stress and/or evening peak demand. Given the experience with the Capacity Market a detailed risk analysis of possible future behaviours should be carried out of both planned and operational plant that can control their output rather than what appears to be simplistic assumptions that behaviour will not really change.

**Question 6:** *Do you agree with our assessment that, in this instance, grandfathering as set out in the WACMs would be unlikely to best facilitate the CUSC objectives when compared to the other options available to us?*

Based on the cost projections it is reasonable that grandfathering is unsustainable.

**Question 7:** *Do you agree with our assessment that the value of the avoided GSP investment cost best facilitates the applicable CUSC objectives?*

There is a sound logic in this argument other than it is based on information relating to 2013/14. In the subsequent 5 years the market has evolved rapidly, e.g. solar and the new Capacity Market, which would suggest that this evidence needs to be updated and **independently** scrutinised.

We would also suggest that some "security of supply" element should also be included for the embedded generators particularly if they are not going to benefit from possible future revenues from the residual charge. This should be an essential component of the TCR.

**Question 8:** *Do you agree with our assessment of the impacts on security of supply? Please provide evidence for provided views.*

This is an extremely complex issue which will only become more complicated with Brexit and how the rest of Europe deals with the Trilemma. As a general comment we believe that the security of supply issue has been too readily dismissed. As we have already seen with the Capacity Market mechanism it is very likely that if TDR payments are reduced to virtually zero there will be some unintended consequences and other market distortions some of which nobody has even thought about to date.

**Question 9:** *Please provide evidence to show if there are other cost savings which small EG drive in comparison to larger (over 100MW) EG on the distribution system.*

No comment.



**Question 10:** *Is there other evidence that payment above avoided GSP/generation residual would better facilitate the applicable objectives?*

No comment.

**Question 11:** *Do you believe you have a legitimate expectation or contractual right for the continuation of TDR payments? If so, please provide evidence.*

We would acknowledge that there is no contractual right to TDR payments. However, TDR payments were not changed ahead of the Capacity Market mechanism implementation both of which have an element of security of supply. There is therefore a logic that suggests that the TDR payments would be retained in whole or in part for at least a period 4 years ahead including the Winter of 2021/22, assuming the proposed TDR change is implemented in April 2018.

**Question 12:** *Do you agree with our assessment of the distributional issues?*

No comment.

**Question 13:** *Are there any sectors that we may have overlooked?*

No comment.

**Question 14:** *Do you agree with our modelling approach?*

No comment

**Question 15:** *Do you think that our background assumptions and using FES data is an appropriate approximation for status quo?*

No comment.

**Question 16:** *Where WACMs are not modelled directly, do you think our assessment is appropriate (see appendix 8 for detail)?*

No comment.

**Question 17:** *Of the options available to us, do you agree that WACM4 best facilitates the applicable CUSC objectives?*

There is a good degree of logic behind your argument with the following three caveats:

- The costs provided by National Grid for the avoided GSP reinforcement costs should be based on current or very recent projects, be independently verified and indexed to current values so as to be reflective of the actual benefits of embedded generation to avoided transmission and distribution infrastructure costs at the GSP. Using information for projects from some 5 or more years ago is not reasonable.



- Some security of supply benefit is apportioned to embedded generators to compensate for not having access to the residual charge which could be load factor related.
- The phase out period is a minimum of 4 years to fit in with the timetable of the next T-4 Auction of the Capacity Market in December 2017 assuming the change is agreed and comes into effect in April 2018.

**Question 18:** *Do you believe that an implementation date of April 2018 best facilitates the applicable CUSC objectives?*

No comment other than to suggest that Ofgem revises the phasing out of the current TDR payments to be for 4 years from April 2018 to fit in with the Capacity Market T-4 Auction scheduling.

We trust that you find the above comments helpful in coming to a final decision on implementing changes to the TNUoS charging mechanism.

Yours sincerely

*A Ellis*

Dr Andrew Ellis

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