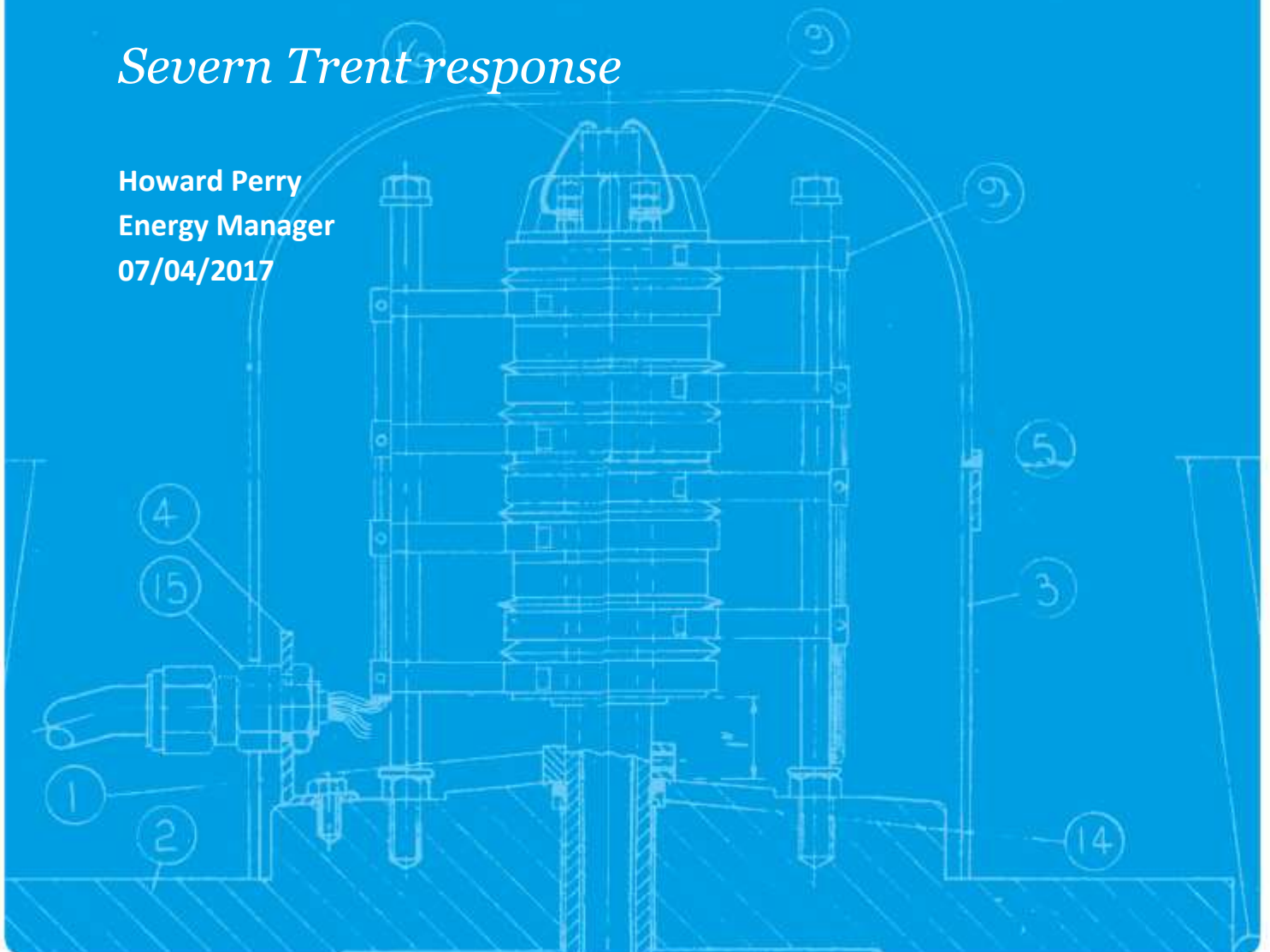


Embedded Benefits: Consultation on CMP264 and CMP265 minded decision and draft Impact Assessment

Severn Trent response

Howard Perry
Energy Manager
07/04/2017



Thank you for the opportunity to respond to your consultation on changes to the electricity charging arrangements for Embedded Generators. Our key point in response is that we believe these proposals should be revised to target fossil fuel and not renewable energy generation.

Our Views

We disagree with the changes as proposed as we believe they harm the development of renewable energy and a flexible electricity grid and will lead to higher prices for our customers.

The existing TNUOS value for export during the highest-demand times remains one of the few direct incentives for increasing flexibility across the grid and has been a part of the hugely successful drive to decarbonise electricity generation – a key part of the Government’s strategy. As there is good evidence⁽¹⁾ that the carbon intensity of mains electricity correlates strongly with the level of demand, we believe this should continue to be incentivised.

We do agree with your aim to reduce the proliferation of distribution connected reciprocating plant powered by fossil fuels. We think this objective would be better met by specifically targeting those forms of generation rather than all connected generation, including renewables.

The proposed changes as they stand would have a significant detrimental impact on the income we receive from the renewable electricity we generate and export during the most carbon-intensive times of demand. They also significantly harm business cases for further renewable electricity development and, perhaps more importantly, storage and demand management options, which rely in part on maximising flexible export of generated renewable electricity. This damages investor confidence in an already challenging economic climate and is likely to reduce investment in low-carbon technologies.

The business case for batteries in particular, which we are currently actively reviewing, will undoubtedly be set back by the loss of triad export benefits both in terms of the financial business case and also our confidence in the investment.

We would encourage you to note recent reports which find that the carbon-intensity of supply during the highest demand times of year is much higher than during other times. In this context it would be counter-productive to discourage low-carbon generation during these times.

We would also encourage you to note concerns raised by the Renewable Energy Association, relating to both the assumptions made in the consultation and the process followed for agreeing changes.

¹ See ‘An investigation into the use of temporal factors for CO2 emissions accounting in buildings’ (April ‘17) <http://www.wsp-pb.com/PageFiles/79991/An%20Investigation%20into%20CO2%20Emissions%20Accounting%20in%20Buildings.pdf>

Background on Severn Trent

Severn Trent provides water and wastewater services to 4.3 million customers across England and Wales. In order to provide these services we require significant amounts of electricity, which is our second highest single operating cost after manpower.

As the majority of our business activities are a regulated monopoly, we are subject to price regulation which means cost increases ultimately directly affect customers' bills. As part of our strategy to keep bills low for our customers we focus on energy management, particularly by reducing demand for energy during peak cost times, and renewable energy generation, particularly by using biofuel from our sewage treatment processes. As a result, we currently generate approximately 290 GWh of renewable electricity as well as injecting renewable biogas into the national grid. 75% of this electricity is self-supplied and directly reduces our electricity cost for customers. Where this is not possible or efficient, electricity is exported. Reducing the value of exported electricity from our regulated business will ultimately lead to higher water customer bills than they otherwise would be.