

Frances Warburton  
Partner  
Ofgem  
9 Millbank  
London SWP 3GE



Dear Ms Warburton,

### **Open letter: Charging arrangements for embedded generation**

As members of the Renewable Energy Association we are in full agreement with the joint response submitted by the REA and Association of Decentralised Energy in response to the above. The purpose of this letter is to draw your attention to some issues specific to landfill gas.

When landfill gas is utilised for economic benefit, as opposed to simply being flared, it creates an added incentive to strive for high gas collection rates. The loss of the Triad benefit, or significant proportion of it, could result in gas utilisation projects being forced to close early. This would result in the loss of a valuable low-carbon source of energy, and a reduction in the carbon off-setting that electricity generation from landfill gas provides. It could also result in less efficient gas collection. Aftercare for these sites is a highly complicated process that requires significant forward planning and results in a long term commitment. Some operators fund this through the earnings from power generation.

Landfill gas utilisation contributes to the overall earnings of each facility, the reduction of which could accelerate the closure of marginal landfills. This would have a wider implication for waste management and further exacerbate the shortfall that already exists with respect to waste treatment capacity.

All of our generation schemes are connected at distribution level and provide constant and valuable base load electricity to the distribution networks that they are connected to. They have done this for years, if not decades, and we believe this valuable ongoing contribution to security of supply in an uncertain future within the electricity supply industry is being overlooked.

Implementing such radical changes in such a short timescale (before 2019/20) will have serious consequences for industry and local authorities alike. We are particularly concerned that Ofgem has not accounted for additional complications brought about by the EU referendum result. If changes are brought in before the UK has exited the EU, they may come into contention with EU rules on state aid. There will also need to be an assessment on the impact of the changes on interconnectors across Europe and how this is affected by Brexit. We would therefore like to see this review included

in Brexit discussions, which would necessitate a longer review process and a later implementation date.

Ofgem should evaluate different types of embedded generation separately to avoid broad changes that create an imbalance in the UK's energy mix. Unlike many other forms of embedded generation, electricity generated by the landfill gas industry is baseload. It plays a crucial role in generating electricity at all times, contributing to security of supply. The benefit of responsive and embedded baseload generation, such as that provided by the landfill gas industry, should be recognised in Ofgem's review.

We also dispute the five reasons put forward for TNUoS demand residual payments distorting the market cited (p.5 of the letter). Taking each bullet point in turn:

1. Ofgem's first point (encouragement of smaller less efficient plant) is not relevant to renewable generation. All landfill gas is distribution-connected. The existence of triad benefits does not encourage landfill gas to connect to the distribution network, as opposed the transmission network. (In our opinion, any mix of generation should include a proportion of reliable and controllable renewable energy, such as energy from waste, landfill gas and AD generation. Although we are small in comparison to transmission connected generation (TG), our business is evidence of a cost-effective and efficient use of wastes, and is truly embedded in the distribution network.)
2. Given the economies of scale of TG and the link between power prices and their fuel input costs, we do not believe our operations or entitlement to embedded benefits has resulted in TG exiting the market.
3. We do not agree with your concern over distorting despatch. When it comes to renewable energy, the Renewables Obligation and Feed-In Tariff were introduced in order to encourage as much renewable electricity generation as possible. It incentivises all renewable energy generation to dispatch whenever it can. Moreover, the dampening of prices at peak times is something that Ofgem should support in the interests of reducing consumer bills. TG itself is likely to have a greater impact on peak pricing as it has limited flexibility, has to be maintained as a spinning asset, and efficiency reduces significantly when it is forced to operate at reduced load.
4. Renewable energy in receipt of ROCs (CfDs or the Feed-In Tariff) is not eligible to bid into the capacity market in the first place (a situation with which we disagree and believe is distorting in itself). Therefore this bullet point is not relevant to our sector.
5. In respect of your final bullet point, with the shortfall in the generation margin it is extremely important to have as much capacity contributing at times of peak demand. We are at a loss to understand why Ofgem would not be supportive of this. Triads create a clear incentive to generate when demand is high. Furthermore we do not believe that our access to embedded benefits is preventing TG from innovating, demonstrated by the success of National Grid's recent EFR tender.

Modifications

Whilst we disagree entirely with removing or diluting Triad benefit, the proposal which impacts upon existing contracts (CMP265) is doubly undesirable as it would be damaging to investor confidence. In this respect a split implementation grandfathering approach would be preferable.

Our business has invested millions in the energy sector on the understanding that the embedded benefits would be received. Changes (if made at all) must only be introduced to projects going forward and in a timely manner once their full impact has been carefully assessed.

#### Conclusion

We are concerned that Ofgem's proposal has not fully considered the complexities, impact and potential unintended consequences of making changes to charging arrangements for embedded generation and their ramifications on other parties (e.g. local authorities), growth and innovation in the sector enabled by strong investor confidence, and security of supply.

We appreciate that undertaking a Significant Code Review (SCR) would require a longer time scale, but looking at TNUoS payments in isolation may have unintended consequences for the market. Given that rushed changes could have serious repercussions and that the impact of Brexit must be taken into consideration, we strongly urge Ofgem to reconsider undertaking a SCR. A longer time scale would allow Ofgem to undertake a robust impact assessment that appreciates the nuances involved in making changes.

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

Yours sincerely,

Gaynor Hartnell,

on behalf of a number of REA member companies with landfill gas interests<sup>1</sup>.

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<sup>1</sup> These include Arevon Energy, CLP Envirogas, Cory, ENER-G Natural Power Ltd, Energy Developments Limited, Renewable Power, Suez, Veolia and Viridor.