

10 March 2011

Department of Energy and Climate Change
3 Whitehall Place
London SW1A 2AW

EMR-condon@decc.gsi.gov

RE: ELECTRICITY MARKET REFORM CONSULTATION DOCUMENT

Dear Sir / Madam,

Thank you providing the North London Waste Authority with the opportunity to respond to Electricity Market Reform Consultation.

The North London Waste Authority (NLWA) is one of the six statutory joint waste disposal authorities in England and one of the four in London. We handle nearly 1 million tonnes of municipal solid waste collected by our seven constituent borough councils namely, Barnet, Camden, Enfield, Hackney, Haringey, Islington and Waltham Forest, in addition to operating an Energy-from-Waste (EfW) facility at Edmonton.

Currently, the NLWA is engaged in a major procurement exercise which seeks to realise substantial carbon and other environmental benefits through the production of Solid Recovered Fuel (SRF) from municipal waste, and the subsequent use of that fuel to generate energy in the form of both electricity and heat. In particular, our interest lies in how the Feed-in-tariff may affect projects within the waste market and how renewable energy incentives can be used to provide greater market certainty to the EfW projects and bidding community as part of the development of long term strategic infrastructure.

The following response is subject to Member approval and comment. We will update the response if there are any changes as a result of consultation with Members. If you require any further clarification of the points raised in our response or have additional queries please do not hesitate to contact Kirsten Thorpe (kirsten.thorpe@nlwa.gov.uk).

Yours sincerely,

Tim Judson

Director of Procurement.

CONSULTATION QUESTIONS

In relation to the consultations put forward within the Electricity Market Reform Consultation Document, the North London Waste Authority has set out its response below:

Current Market Arrangements

1. Do you agree with the Government's assessment of the ability of the current market to support the investment in low-carbon generation needed to meet environmental targets?

The current levels of low-carbon generation and immediate prospects suggest that the market is unlikely to deliver 30% renewable electricity by 2020. The NLWA considers waste treatment processes have a considerable contribution to make and that Government should take steps to support such approaches.

2. Do you agree with the Government's assessment of the future risks to the UK's security of electricity supplies?

The NLWA agrees with the assessment of security of supply. This can be enhanced through the diversification of generation technologies, in particular through the encouragement of various forms of energy-from-waste (EfW) including:

- Anaerobic digestion of organic waste; and
- Thermal treatment of the wastes which cannot be recycled (either through conventional technologies or advanced thermal treatment),

both of which are capable of assisting the UK to meet its renewable energy (electricity and heat) targets.

Options for Decarbonisation

Feed-in Tariffs

3. Do you agree with the Government's assessment of the pros and cons of each of the models of feed-in tariff (FIT)?

Both the Fixed FIT and FIT with CfD would underpin EfW projects by de-risking electricity prices, thereby resulting in better value for money within long term waste contracts by providing surety to service providers. However, this is highly dependent upon the ultimate duration and level at which the FIT is set, as a low and short term FIT levels could result in EfW projects being commercially unviable, which would preclude their significant contribution to renewable energy targets.

The Premium FIT is similar to the Renewables Obligation Certificates which are currently applicable to the EfW market where renewable electricity is generated in conjunction with heat. The waste industry has a good understanding of this system but to date, has struggled to take advantage of this mechanism due to the lack of established heat off-take within the UK. Therefore, the NLWA would welcome financial incentives which support the generation of electricity from renewable sources, in addition to rewarding heat supplied through renewable means.

4. Do you agree with the Government's preferred policy of introducing a contract for difference based feed-in tariff (FIT with CfD)?

The NLWA agrees with the principle of the FIT with CfD as this would help to de-risk key elements of EfW projects and potentially attract new investors. However, this is highly dependent upon the level at which the tariff is set as this will have a marked bearing on the commercial attractiveness of new EfW projects, including currently in the procurement pipeline. Here the NLWA would expect to see further consultation on the duration and level of tariff proposed.

5. What do you see as the advantages and disadvantages of transferring different risks from the generator or the supplier to the Government? In particular, what are the implications of removing the (long-term) electricity price risk from generators under the CfD model?

For renewable energy projects, the longer term risks are most difficult for the market to manage. We consider there is a particular role for Central Government to manage such risks consistent with its concern for security of supply at a national level.

6. What are the efficient operational decisions that the price signal incentivises? How important are these for the market to function properly? How would they be affected by the proposed policy?

The NLWA has no comment on this question.

7. Do you agree with the Government's assessment of the impact of the different models of FITs on the cost of capital for low-carbon generators?

The NLWA agrees that greater revenue certainty will help to deliver projects at a lower cost by providing assurance to project financiers, thereby enabling industry to deliver more cost effective projects through reduced cost of capital.

8. What impact do you think the different models of FITs will have on the availability of finance for low-carbon electricity generation investments from both new investors and existing the investor base?

The ultimate impact of the different FIT models will be highly dependent upon the duration and level at which the tariff is set and the market certainty associated with each.

9. What impact do you think the different models of FITs will have on different types of generators (e.g. vertically integrated utilities, existing independent gas, wind or biomass generators and new entrant generators)? How would the different models impact on contract negotiations/relationships with electricity suppliers?

Both the Fixed FIT and FIT with CfD would underpin EfW projects by de-risking electricity prices, thereby resulting in better value for money within long term waste contracts by providing surety to service providers. It will be important that there is clarity on the definition of low carbon generation for financial incentives and the eligibility of certain waste treatment processes and fuel types to qualify against this definition.

The NLWA would expect to see further consultation on the duration and level of tariff proposed as this will have a significant bearing on negotiations/relationships with electricity suppliers engaged with the EfW market.

10. How important do you think greater liquidity in the wholesale market is to the effective operation of the FIT with CfD model? What reference price or index should be used?

The NLWA has no comment on this question.

11. Should the FIT be paid on availability or output?

The NLWA has no comment on this question.

Emissions Performance Standards

12. Do you agree with the Government's assessment of the impact of an emission performance standard on the decarbonisation of the electricity sector and on security of supply risk?

The NLWA welcomes an EPS which will enable the comparison of different energy generating technologies and facilitate the decarbonisation of the UK's electricity supply.

13. Which option do you consider most appropriate for the level of the EPS? What considerations should the Government take into account in designing derogations for projects forming part of the UK or EU demonstration programme?

The NLWA has no comment on this question.

14. Do you agree that the EPS should be aimed at new plant, and 'grandfathered' at the point of consent? How should the Government determine the economic life of a power station for the purposes of grandfathering?

The NLWA has no comment on this question.

15. Do you agree that the EPS should be extended to cover existing plant in the event they undergo significant life extensions or upgrades? How could the Government implement such an approach in practice?

The NLWA has no comment on this question.

16. Do you agree with the proposed review of the EPS, incorporated into the progress reports required under the Energy Act 2010?

The NLWA has no comment on this question.

17. How should biomass be treated for the purposes of meeting the EPS? What additional considerations should the Government take into account?

The NLWA believes that the use of Solid Recovered Fuel (SRF) whether co-fired or used in a dedicated facility should be “zero-rated”.

18. Do you agree the principle of exceptions to the EPS in the event of long-term or short-term energy shortfalls?

The NLWA has no comment on this question.

Options for Market Efficiency and Security of Supply

19. Do you agree with our assessment of the pros and cons of introducing a capacity mechanism?

The NLWA has no comment on this question.

20. Do you agree with the Government's preferred policy of introducing a capacity mechanism in addition to the improvements to the current market?

The NLWA has no comment on this question.

21. What do you think the impacts of introducing a targeted capacity mechanism will be on prices in the wholesale electricity market?

The NLWA has no comment on this question.

22. Do you agree with Government's preference for a the design of a capacity mechanism:
- a central body holding the responsibility;
 - volume based, not price based; and
 - a targeted mechanism, rather than market-wide.

The NLWA has no comment on this question.

23. What do you think the impact of introducing a capacity mechanism would be on incentives to invest in demand-side response, storage, interconnection and energy efficiency? Will the preferred package of options allow these technologies to play more of a role?

The NLWA has no comment on this question.

24. Which of the two models of targeted capacity mechanism would you prefer to see implemented:
- Last-resort dispatch; or
 - Economic dispatch.

The NLWA has no comment on this question.

25. Do you think there should be a locational element to capacity pricing?

The NLWA would welcome differential capacity pricing that reflects the particular energy challenges and demands in London.

Analysis of Packages

26. Do you agree with the Government's preferred package of options (carbon price support, feed-in tariff (CfD or premium), emission performance standard, peak capacity tender)? Why?

The NLWA would welcome a package which would assist the UK to meet its renewable energy and climate change objectives in a cost effective manner.

27. What are your views on the alternative package that Government has described?

The NLWA has no comment on this question.

28. Will the proposed package of options have wider impacts on the electricity system that have not been identified in this document, for example on electricity networks?

The NLWA has no comment on this question.

29. How do you see the different elements of the preferred package interacting? Are these interactions different for other packages?

The NLWA has no comment on this question.

Implementation Issues

30. What do you think are the main implementation risks for the Government's preferred package? Are these risks different for the other packages being considered?

Presently, there is significant uncertainty within the waste market as to how EfW projects which are expected to be delivered from 2013 onwards, will be incentivised. In particular, this relates to "vintaging" of the Renewables Obligation Order.

The main implementation risks which the NLWA have identified are those relating to the interaction between existing renewable energy incentives (ROCs and RHIs) and how the transition to new any new package would be implemented, regulated and managed. The timing of the delivery of any package will be critical to ensuring the continuity and confidence of investment in renewable energy schemes including EfW projects which are presently in the procurement pipeline.

Furthermore, there is market confusion over commercial viability of projects which are planned to become operational post 2017. This is due to the need to define commercial terms well in advance of actual service delivery of new waste infrastructure, for which there is a long lead in time.

31. Do you have views on the role that auctions or tenders can play in setting the price for a feed-in tariff, compared to administratively determined support levels?
- Can auctions or tenders deliver competitive market prices that appropriately reflect the risks and uncertainties of new or emerging technologies?
 - Should auctions, tenders or the administrative approach to setting levels be technology neutral or technology specific?
 - How should the different costs of each technology be reflected? Should there be a single contract for difference on the electricity price for all low-carbon and a series of technology different premiums on top?
 - Are there other models government should consider?
 - Should prices be set for individual projects or for technologies
 - Do you think there is sufficient competition amongst potential developers / sites to run effective auctions?
 - Could an auction contribute to preventing the feed-in tariff policy from incentivising an unsustainable level of deployment of any one particular technology? Are there other ways to mitigate against this risk?

The NLWA has no comment on this question.

32. What changes do you think would be necessary to the institutional arrangements in the electricity sector to support these market reforms?

The NLWA has no comment on this question.

33. Do you have view on how market distortion and any other unintended consequences of a FIT or a targeted capacity mechanism can be minimised?

The NLWA has no comment on this question.

34. Do you agree with the Government's assessment of the risks of delays to planned investments while the preferred package is implemented?

Presently, there is significant uncertainty within the waste market as to how EfW projects which are expected to be delivered from 2013 onwards, will be incentivised. In particular, this relates to "vintaging" of the Renewables Obligation Order.

Furthermore, there is market confusion over commercial viability of projects which are planned to become operational post 2017. This is due to the need to define commercial terms well in advance of actual service delivery of new waste infrastructure, for which there is a long lead in time.

35. Do you agree with the principles underpinning the transition of the Renewables Obligation into the new arrangements? Are there other strategies which you think could be used to avoid delays to planned investments?

Both the Fixed FIT and FIT with CfD would underpin EfW projects by de-risking electricity prices, thereby resulting in better value for money within long term waste contracts by providing surety to service providers. However, this is highly dependent upon the ultimate duration and level at which the FIT is set, as a low and short term FIT levels could result in EfW projects being commercially unviable, which would preclude their significant contribution to renewable energy targets.

The Premium FIT is similar to the Renewables Obligation Certificates which are currently applicable to the EfW market where renewable electricity is generated in conjunction with heat. The waste industry has a good understanding of this system but to date, has struggled to take advantage of this mechanism due to the lack of established heat off-take within the UK. Therefore, the NLWA would welcome financial incentives which support the generation of electricity from renewable sources, in addition to rewarding heat supplied through renewable means.

Currently there already is uncertainty as to banding within the existing Renewables Obligation Order and its interaction with the Renewable Heat Incentive scheme which is yet to be finalised. Therefore, until the details of the existing and replacement schemes are consulted upon and

finalised, the NLWA believes that the option for both arrangements should be given to EfW suppliers.

36. We propose that accreditation under the RO would remain open until 31 March 2017. The Government's ambition to introduce the new feed-in tariff for low carbon in 2013/14 (subject to Parliamentary time). Which of these options do you favour:

- All new renewable electricity capacity accrediting before 1 April 2017 accredits under the RO;
- All new renewable electricity capacity accrediting after the introduction of the low-carbon support mechanism but before 1 April 2017 should have a choice between accrediting under the RO or the new mechanism.

Currently there already is uncertainty as to banding within the existing Renewables Obligation Order and its interaction with the Renewable Heat Incentive scheme which is yet to be finalised. Therefore, until the details of the existing and replacement schemes are consulted upon and finalised, the NLWA believes that the option for both arrangements should be given to EfW suppliers.

37. Some technologies are not currently grandfathered under the RO. If the Government chooses not to grandfather some or all of these technologies, should we:

- Carry out scheduled banding reviews (either separately or as part of the tariff setting for the new scheme)? How frequently should these be carried out?
- Carry out an "early review" if evidence is provided of significant change in costs or other criteria as in legislation?
- Should we move them out of the "vintaged" RO and into the new scheme, removing the potential need for scheduled banding reviews under the RO?

To date, the waste industry has been unable to take full advantage of renewable incentive mechanisms, in particular ROCs, due to requirement within the scheme to have an established heat off-take, which often lies outside the responsibility of EfW providers. Therefore, the NLWA would welcome financial incentives which support the generation of electricity from renewable sources, in addition to rewarding heat supplied through renewable means.

The duration and level of ongoing support awarded to eligible projects should be commensurate with the level of support which was originally agreed at the time of the project being deemed eligible, whether this is achieved through a banding review, early review or moving to the new scheme.

38. Which option for calculating the Obligation post 2017 do you favour?

- Continue using both target and headroom
- Use Calculation B (Headroom) only from 2017
- Fix the price of a ROC for existing and new generation

The NLWA has no preference which option is used, provided the duration and level of ongoing support awarded to eligible projects is commensurate with the level of support which was originally agreed at the time of the project being deemed eligible.