



**defra**

Department for Environment  
Food and Rural Affairs

Steve Evans  
Project Sponsor  
Director of Community Services  
South Gloucestershire Council  
Broad Lane Offices  
Engine Common Lane  
Yate  
BS37 7PN

John Burns  
Director  
Waste Implementation  
Programme  
6F Ergon House  
Horseferry Road  
London  
SW1P 2AL  
17 September, 2008



Dear Steve,

## **Re: WIDP Round 4 Waste PFI Projects**

I am writing to all Round 4 projects in the WIDP Waste PFI programme to make you aware of some important lessons that have been learnt from our recent evaluation of Round 3 Projects and in order to ensure that these points are adequately addressed in Round 4 OBCs.

The objective is to ensure that projects in Round 4 can improve upon the carbon outcome of their chosen residual waste solution by:-

- a) maximising the probability of the provision of Combined Heat and Power (CHP); and
- b) undertaking adequate investigation of the potential to reach a 60% recycling, composting rate.

### **Combined Heat and Power**

For all Round 4 projects the potential for a CHP outcome will be evaluated during the WIDP scrutiny process and will be explicitly included in recommendations to ministers. To enhance the prospects for CHP it will also be mandatory for a CHP Heat Demand Study to be concluded prior to the commencement of procurement, regardless of the technology selected for the Reference project.

Authorities that have already initiated studies for their particular area should complete such work and reflect the results in their OBCs.



INVESTOR IN PEOPLE



Authorities should note that to avoid putting an additional cost on either bidders or Authorities, WIDP is undertaking, with the help of external consultants, studies on a regional basis covering the areas relevant for Round 4 – see Appendix A for the outline terms of reference for these studies. These studies will be made available to Round 4 Authorities by the end of November 2008. In their OBCs Authorities are expected to commit to put the studies into the public domain as soon as possible and to highlight their availability to all interested parties.

The OBC must also identify the steps Authorities will undertake during the procurement process to encourage bidders to incorporate CHP into their bids. Such steps might include:-

- undertaking preliminary discussions with heat users regarding the commercial and operational issues arising; and
- facilitating contact between bidders and the heat users;

The OBC must also set out the way in which the Authority's evaluation criteria will assess CHP such that, other things being equal, a CHP proposal will be preferred to the same proposal without CHP: This comprises two aspects:-

- carbon savings must be quantified using WRATE; and
- making it clear through the weighting applied to the relevant criteria that the Authority attaches significant importance to carbon reduction

These aspects of the evaluation methodology should be emphasised to bidders but the Authority should also take care to make it clear to bidders that the objective is to identify the most economically advantageous tender and not to secure CHP at any cost.

We believe that this approach will maximise the probability that bidders will offer CHP proposals and the Authority will then select one as its preferred bid. If a CHP bid is shown to be the most economically advantageous tender but it breaches the Authority's affordability envelope, approved at the OBC stage, the Authority may apply to Defra for additional PFI credits. Any request would be subject to the availability of credits at the time as well as the usual conditions associated with additional credit awards.

## **Recycling and Composting Ambitions**

A rate of 60% has been set as the yardstick for recycling and composting (R&C) for Round 4 projects. Authorities will therefore have to justify any gap between their proposed recycling rate in 2020 and 60%, with particular reference to a series of model recycling systems developed by WRAP. That is not to say that it is now mandatory for projects to include a 60% recycling and composting rate, or that those falling short of this level will not be eligible for PFI support.

In Round 3 we invited WRAP to scrutinise the proposals included in OBC's to test that they were capable of achieving or exceeding the current 50% requirement. WRAP are willing to

extend this role to work with authorities and to advise where between 50% and 60% the recycling target should be set and are ready to build on existing relationships with Round 4 projects prior to OBC submission.

Projects should also consider the need for flexibility within the residual waste contract to allow for an increase in recycling rates to 60% or above in future years. For example the role of substitute waste, such as commercial and industrial or third party waste, to replace the Authority's waste should be explored.

We do not intend to extend the scrutiny timetable as evaluations by WIDP and WRAP will take place within the stated OBC timeframe. The deadline for the submission of OBC's by 31st October is unchanged.

I would encourage you to continue to work closely with your designated WIDP Transactor to ensure these requirements are addressed in your OBC. Transactors have been fully briefed on these issues and furthermore they and members of the WIDP PFI scrutiny team are already undertaking face to face meetings with all Round 4 projects ahead of OBC submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Burns', written over a horizontal line.

John Burns

WIDP Programme Director

**Direct line:** 0207 238 4310

**Fax:** 020 7238 4857

**Email:** john.f.burns@defra.gsi.gov.uk

**Cc:** David Turner - Project Director (NOE)

Mike Williams -WIDP Transactor

## Appendix A

### SCOPE OF REGIONAL CHP HEAT DEMAND STUDY

Potential regional energy users will be identified initially from:-

- The EU-ETS and IPPC
- WID permitted installations;
- Energy Intensive Users Group;
- Combined Heat and Power Association;
- BERR Heat Map;

The evaluation process will involve the following steps to be addressed on a limited, desk-top basis for the initial Phase 1 study:-

- Identification of viable facilities
- Identification of opportunities and technical constraints
- Identification of costs and revenues
- Identification of risks and mitigation measures

To evaluate suitability and likelihood of SRF use, identified facilities will be grouped by the following criteria:-

- Annual energy use
- Plant type and fuel
- Location (e.g. transport issues)
- Handling and storage capabilities
- Likely regulatory impact (Waste Incineration Directive, IPPC etc)

On the basis of the above evidence, sites will be grouped according to suitability in order to rank sites according to the probability of success in using or converting to SRF fuel use.