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SAA
Scottish Assessors' Association

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Utilities Committee

Practice Note 7
Valuation of Electricity Generation from Landfill Gas

1.0 Introduction

1.1 This Practice Note deals with the valuation of lands and heritages used for the extraction of landfill gas to generate electricity.

2.0 Basis of Valuation

2.1 Subjects are to be valued by reference to the Receipts and Expenditure Method.

The basis of this valuation firstly determines the gross profit by taking the gross receipts less cost of purchases (direct costs). Working expenses (operating costs) are then deducted to give operating profit; this is then adjusted for depreciation of tenant's assets to arrive at a divisible balance. The divisible balance represents the amount to be shared between the tenant (tenant's share – return on capital/risk/profit) and landlord (landlord's share – the rent payable or the rateable value).

3.0 Valuation Considerations

3.1 Total Installed Generating Capacity of the Site

The valuer should establish the Total Installed Generating Capacity (TIGC) of the site in megawatts (MW) from the operator. This information is also available publicly through the Renewable Energy Foundation website at https://www.ref.org.uk/energy-data.

3.2 Output of the Site Expressed as Megawatt Hours

3.2.1 The volume of trade or business produced by any given site is determined by the output. The unit of measurement is Megawatt Hours (MWh).

3.2.2 The valuer should derive the maintainable MWh at the location. It will be appropriate for the valuer to consider the following at the relevant date for physical circumstances when deciding upon this figure:

- Trends from previous years.
- The operators gas curve for availability of gas.
- Amount of gas remaining.

4.0 Valuation

4.1 The valuation requires the calculation of notional gross income and expenditure (direct and operating costs).

4.2 **Notional Gross Income**

A rate of £165/MWh should be applied to the output derived at 3.2.2 above to determine notional gross income.

4.3 **Calculation of Total Operating Costs**

4.3.1 Due to the individual nature of each landfill site and the generation facility located thereon, both direct costs (costs of sales) and operating costs are site specific.

The total of both direct costs and operating costs should be calculated from the Assessors Information Notice.

Apportioned head office expenses should also be included in this calculation.

Amounts paid for rent, business rates and interest on loans (as the provision of capital is considered in connection with the tenant's share) should not be included in this calculation.

Having ascertained the total costs, these should be deducted from the notional gross income derived at 4.2 above to determine the operating profit.

In the absence of specific costs being available, a rate of £220,000/MW of the TIGC should be adopted. However it is stressed that costs vary significantly from site to site and all attempts should be made to obtain the cost information before adopting this figure.

5.0 Depreciation

5.1 Depreciation is allowed on the tenant's assets.

5.2 A figure of 65% of a capital cost of £1,200,000 per MW TIGC should be depreciated on a straight-line basis over 12 years. The minimum amount allowed as depreciation is £65,000. Where the calculated amount falls below this level then a figure of £65,000 should be adopted.

6.0 Divisible Balance

6.1 The tenant's share may be regarded as the first call on the divisible balance. This share has to be sufficient to encourage the tenant to take tenancy of the lands and heritages and to provide an appropriate reward to achieve a profit, an allowance for risk and a return upon their capital.

6.2 At this point the tenant's share should be taken as 80%. This reflects the value of the land which is not accounted for at 5.2 above.

6.3 To reflect the interest on capital, profit and risk associated in carrying out the undertaking, the tenant's share is increased by 10%.

6.4 Deducting the tenants share from the divisible balance leaves the income available for rates and for the payment of rent i.e. the landlord's share.

7.0 Net Annual Value / Rateable Value

7.1 The remaining income is available for the payment of rent and rates. The rates payment will be stripped out and the resultant figure is the amount available for rent, this being the Net Annual Value / Rateable Value.