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Dear Andrew,

This letter contains Welsh Power's response to Ofgem's TCR consultation.

Background

Welsh Power Group is a privately-owned energy company with a strong track record in the development, construction and operation of both conventional and renewable power generation projects. The company has owned large thermal generating plant, Uskmouth Power; developed and financed a new build 850MW CCGT, Severn Power; established a successful energy supply business, Haven Power; and constructed a small 50MW peaking portfolio which it sold to Alkane Energy in July 2014.

Since 2014 Welsh Power has been working in partnership with an investor to bring forward a portfolio of new flexible, efficient, gas-fired generating capacity to the UK market. Welsh Power currently has over 400 MW of gas-fired embedded generating capacity either operational or under construction across 25 sites and 6 DNO regions.

In 2018 we successfully pre-qualified 193MW of capacity for the T-1 auction and pre-qualified or conditionally-prequalified 175MW of capacity for the T-4 auction (as would have been).

By the time the T-1 auction actually runs next summer, we will have commissioned a further 80MW of distributed generation plant, which we didn't pre-qualify but would be able to take part in the auction as an existing CMU.

SPECIFIC CONSULTATION QUESTIONS

1. Do you agree that residual charges should be levied on final demand only?

- Broadly-speaking, yes.
- However, the residual is what is left following calculation of locational elements and we do not think that the locational element of TNUoS is accurate. We therefore think that this needs to be urgently looked at to ensure that the residual

is the correct magnitude accordingly.

2. *Do you agree with how we have assessed the impacts of the changes we have considered against the principles? If you disagree with our assessment, please provide evidence for your reasoning.*

- Questions 2 – 10 have less impact on Welsh Power than questions 11 onwards and accordingly we have spent less time reading and digesting the consultation and supporting documents on these questions.
- From our reading of the consultation document and the presentation at the Charging Futures Forum, the piece of work that Ofgem have done on this section of the TCR seems to us to be extremely well evidenced and thought through and we agree with their recommendation.

3. *For each user, residual charges are currently based on the costs of the voltage level of the network to which a user is connected and the higher voltage levels of the network, but not from lower voltage levels below the user's connection. At this stage, we are not proposing changes to this aspect of the current arrangements. Are there other approaches that would better meet our TCR principles reducing harmful distortions, fairness and proportionality and practical considerations?*

- In a world of distributed generation and exporting GSPs, this assumption would seem to us to become questionable, although for now this may meet Ofgem's proportionality principle the best.

4. *As explained in paragraphs 4.41, 4.43, 4.46, 4.49, 4.80, we think we should prioritise equality within charging segments and equity across all segments. Do you agree that it is fair for all users in the same segment to pay the same charge, and the manner in which we have set the segments? If not, do you know of another approach with available data which would address this issue? Please provide evidence to support your answer.*

- We have no comment on this question

5. *Do you agree that similar customers with and without on-site generation should pay the same residual charges? Should both types of users face the same residual charge for their Line Loss Factor Class (LLFC)?*

- Yes, we agree, although as we noted in our response to question 1, we think the calculation of the TNUoS locational charge is an underestimation (because of the selection of the reference node and expansion constant) and therefore the residuals need to recover higher costs than they would if the locational charge was more accurate.

6. *Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?*

- Should the removal of the majority of the incentive behind TRIAD response for demand customers be removed, generation margins may get to the level at which scarcity pricing pushes up wholesale prices to an extent not considered in the modelling.
7. *Do you agree that our leading options will be more practical to implement than other options?*
- Yes
8. *Do you agree with the approaches set out for banding (either LLFC or demanding for agreed capacity)? If not please provide evidence as why different approaches to banding would better facilitate the TCR principles.*
- We have no comment on this question
9. *Do you agree that LLFCs are a sensible way to segment residual charges? If not, are there other existing classifications that should be considered in more detail?*
- We have no comment on this question
10. *Do you agree with the conclusions we have drawn from our assessment of the following? a) distributional modelling b) the distributional impacts of the options c) our wider system modelling d) how we have interpreted the wider system modelling? Please be specific which assessment you agree/disagree with.*
- We have no comment on this question
11. *Do you agree with our proposed approach to the reform of the remaining non-locational Embedded Benefits?*
- We are fully supportive of Ofgem's proposals to remove the transmission generation residual.
 - However, Ofgem's proposed approach to dealing with BSUoS seems to us to be less well thought through than the first part of the consultation and at odds with their approach to embedded benefits more generally. In high-level terms, that approach is to split embedded benefits into a forward-looking component and a residual and then charge the residual based on final demand.
 - By far the largest BSUoS costs are locational constraint payments to wind farms in Scotland as demonstrated by the chart in figure 1.

Total balancing cost by category

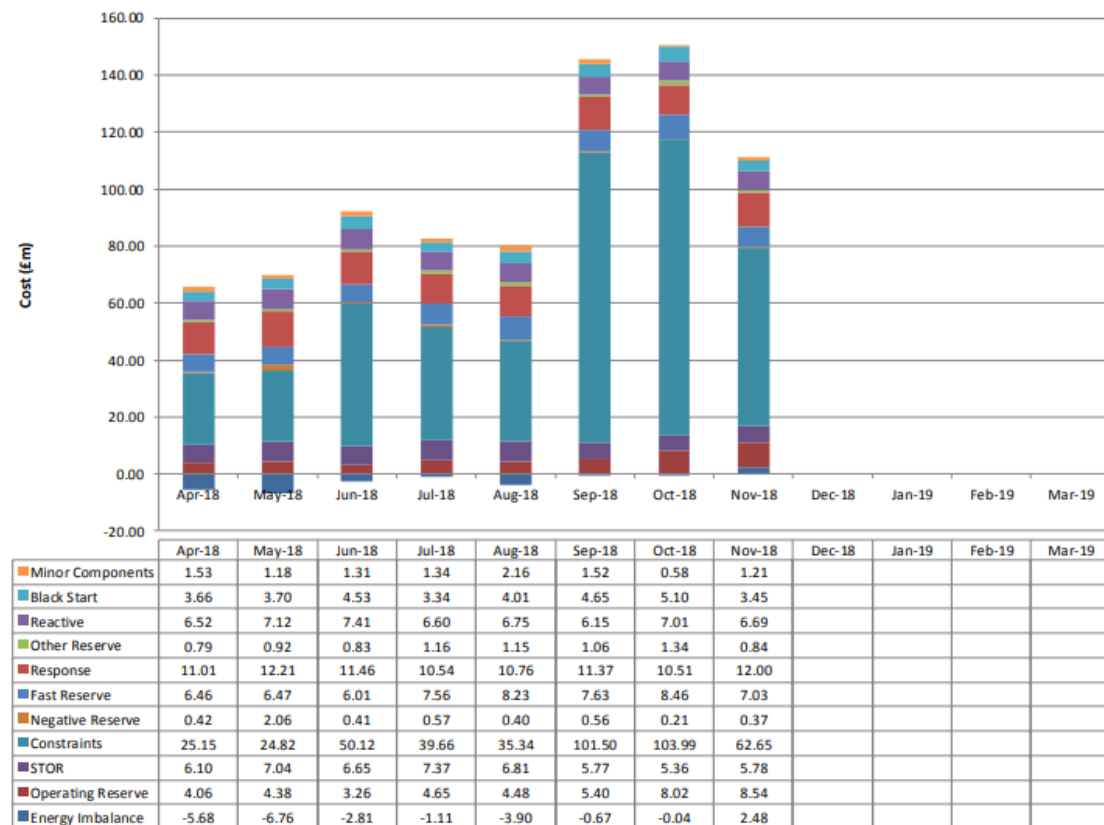


Figure 1: BSUoS costs by category from MBSS

- The Western HVDC link, which became operational in October, has not resolved this constraint problem. To demonstrate this, figure 2 from data supplied by EnAppSys shows regular periods where greater than 1GW of bids are being accepted in the BM in the north of Scotland due to insufficient capacity across boundary B4 (SHTEL-SPT) *after* the introduction of the Western Link. This is even the case in January as the chart shows when demand is highest and therefore constraints should be at a minimum.

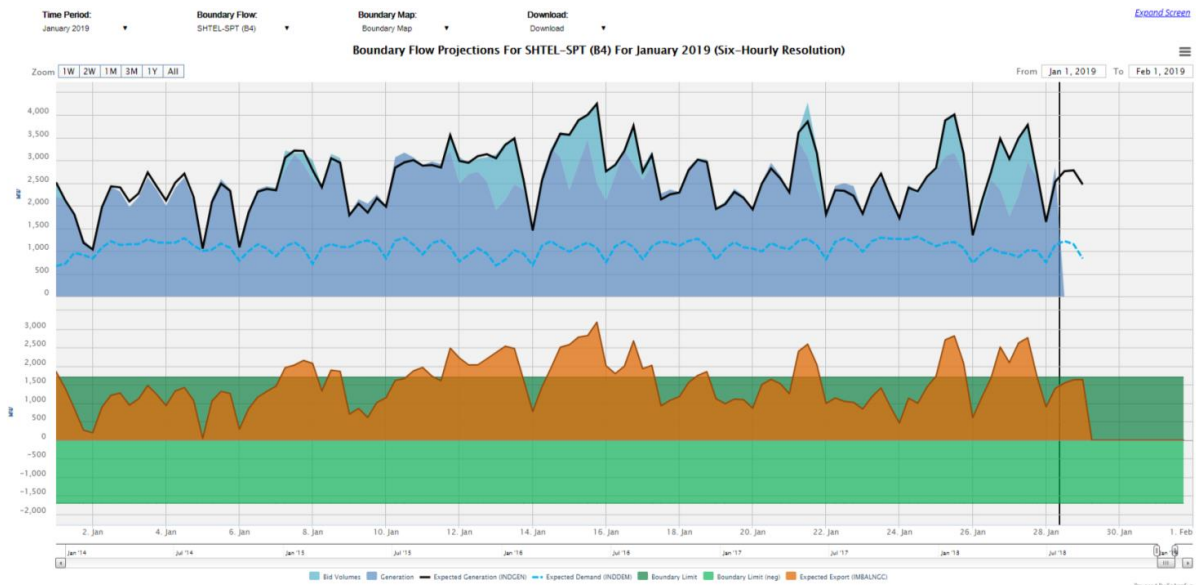


Figure 2: Orange is expected export; green is boundary capacity; light blue areas are bids in the BM, which coincide with periods where expected export exceeds the boundary capacity. Data from EnAppSys

- We think the BSUoS task force should develop a forward-looking signal to reduce the scale of the constraint payments required to generators. Paying BSUoS credits to demand customers behind a constraint may be a palatable option to achieve this and we would be pleased if the BSUoS task force considered this.
- Once BSUoS has been split into forward-looking and 'residual' elements, we think that the residual element should be paid based on gross demand only (in the same way the TCR is proposing residual TNUoS, DUoS and Transmission Generation charges are)
- We also note that CMP 308, which proposes to remove BSUoS charges from generation, is underway and has wide support from industry.
- We also support CMP 308 and therefore consider partial BSUoS reform to be more appropriate than full BSUoS reform, since it reaches the end result faster for embedded generators.
- We think it would be preferable for CMP 308 to drive the process of reform to BSUoS charging since this would allow due process to be followed in the normal way.

12. Do you agree with our proposal not to address any other remaining Embedded Benefits at this stage? Which of the embedded benefits do you think should be removed as outlined in xx? Please state your reasoning and provide evidence to support your answer.

- We agree that the remaining embedded benefits are smaller in magnitude but reflect that Ofgem are the only party likely to have the motivation to ensure that all embedded benefits are consistently charged and therefore we would encourage Ofgem to take action now rather than leave these as legacy items.

13. Are there any reasons we have not included that mean that the remaining Embedded Benefits should be maintained?

- Removal of further revenue streams from embedded generators including renewables generators seems to us to be in conflict with wider government policy that has historically been supportive of renewables and is currently promoting provision of flexibility services.
- The removal (and potentially charging) of BSUoS will be particularly unsettling for the renewables investment community, who saw BSUoS as a stable revenue stream, and who will not be able to recover their lost revenue by adjusting their prices.

14. Do you agree with our proposed approach to transitional arrangements for reforms to: a) transmission and distribution residual charges b) non-locational Embedded Benefits? Please provide evidence to indicate why different arrangements would be more appropriate.

- We are supportive of implementation of reforms to transmission and distribution residual charges in 2021 and do not consider a phased approach necessary.
- We think that transmission-connected generators are nimble and will rapidly be able to adjust their prices to replace the lost revenue of the TGR. We therefore consider that 2020 implementation is preferable to ensure the maximum cost savings are realised.
- We think BSUoS charging reform should be more carefully thought through and implemented through CMP 308, without the results of this TCR adding an interim step.

15. Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.

- We agree with Ofgem's minded to decision in terms of reforms to transmission and distribution residual charging and encourage implementation as fast as possible.
- However, we think that urgent work is required to correct the forward-looking locational element of TNUoS, which in our view is currently mis-predicted by arbitrary selection of the reference node and underestimation of the expansion constant. The locational element of TNUoS sets the residual element and therefore it is important to ensure this is correct if a see-saw effect is to be avoided whereby demand customers aggressively avoid TRIADs the year before reform, have an erroneously-low signal to respond to the next and then have a more cost reflective signal to respond to once the calculation of the locational element has been improved.
- We agree with Ofgem's minded to decision regarding TGR reform and encourage implementation in April 2020.
- We strongly disagree with Ofgem's proposal to charge BSUoS to embedded generators. We do not think BSUoS should be charged to any generator and we are supportive of CMP 308. For this reason, we consider partial BSUoS reform to be preferable to full BSUoS reform.

16. For our preferred option do you think there are practical consideration or difficulties that we have not taken account of? Please provide evidence to support your answer.

- We think that charging BSUoS to embedded generators will have very detrimental impacts on owners of renewable assets.

Please don't hesitate to contact either myself or Matthew Tucker should you wish to discuss any of our consultation responses in further detail.

Yours sincerely

Chris Wickins

Development Manager
Welsh Power Group Limited