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Via email to – [francis.warburton@ofgem.gov.uk](mailto:francis.warburton@ofgem.gov.uk)

Dear Francis,

**Fred. Olsen Renewables Ltd Response to OFGEM Open Letter: Charging Arrangements for Embedded Generation**

Thank you for the opportunity to respond with our views with regards to your approach to embedded benefits.

Fred. Olsen Renewables Ltd (FORL) has been involved in wind power since the 1990's with presence in Norway, Sweden, UK, Ireland and United States. Fred Olsen Renewables Limited (FORL) has 432MW of operational onshore wind projects, a further 74MW in construction and multiple projects at various stages in development in the UK.

As an independent renewable energy generator in the UK, it is critical to highlight the potential significant impacts of the OFGEM review of network charging arrangements on distributed generators. We are very concerned by your intention to accept energy industry proposals to remove the Transmission Network Use of System (TNUoS) embedded benefit for distributed generators. The industry proposals are being made through the Connection and Use of System Code (CUSC) industry process which excludes participation from most industrial manufacturers and distributed generators. In addition, OFGEM is not holding a formal consultation process or producing independent analysis on the impacts these changes will have on businesses, households, the energy market or security of supply. Also, any changes to individual aspects of Embedded Benefits should be informed by all affected parties, carried out with independent oversight and considered as part of a wider review of network charging.

While we understand that the competitiveness of diesel generators in the Capacity Market is one of the key motivations of CMP 264 and 265, changes to Embedded Benefits could harm cost-reflectivity and have unintended consequences, including impacting low-carbon distributed generation and the growth of storage.

Network charging is a complicated and integrated area, with knock-on effects across the energy system. FORL consider that it is right for OFGEM to review the embedded benefits regime to ensure it is appropriate and cost-reflective. However, we think OFGEM needs to take a careful, considered, holistic and system approach, starting with a Significant Code Review. A rushed decision to remove the TNUoS embedded benefit will exclude impacted businesses from the process and have significant real world impacts on Government policy which cannot easily be reversed.

Additionally, renewable energy generators, including FORL, will be significantly impacted by any sudden change to the TNUoS demand residual. While this revenue stream may vary, removing it would have an impact on project economics. This is likely to create a significant additional charge for generators in Scotland of which all of FORLs wind fleet is situated.

The limited analysis that has been presented fails to take account of the impact on renewable energy generators, storage and demand side response or the overall system cost to the consumer.

It is our view that any changes should be informed by an independent and holistic review of system charging. The timing of the CUSC modification proposal, in an attempt to correct a Capacity Market issue and its accelerated timetable have created significant difficulty for industry parties to respond. Embedded generators are not typically involved with the detail of the CUSC and would have benefitted from a longer consultation period in order to fully understand the impacts of the proposals.

We believe that OFGEM should **not** agree to make changes to existing arrangements in advance of the capacity market. OFGEM do not need to make sudden kneejerk reaction to embedded benefits for the next CM auction, as by issuing the open letter, and by exploring solutions, the signal has been telegraphed to those CM bidders to exclude embedded benefits from their calculations. It should also be possible that the terms of the auction could explicitly state the removal of the Embedded Benefit.

In summary, FORL would like any changes to charging to be informed by detailed assessment underpinned by rigorous analysis by the regulator. As a regulator we expect OFGEM to lead appropriate charging methodologies, not just preside over small meddling fixes. This should consider a wider, holistic review of system charging which is no longer fit for purpose – this requires a significant code review.

If you wish to discuss the content of this response further, please get in touch.

Yours sincerely



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