

Ofgem
9 Millbank
London
SW1P 3GE

23rd September 2016

Dear Sir/Madam,

RE: Open letter on charging arrangements for embedded generation

Anglian Water is a company providing water and water recycling services to more than 6 million customers in the east of England and Hartlepool. As part of our operations we have embedded generation assets on our operational sites, including standby diesel generation, biogas CHP, wind and solar. Our generating assets typically offset some or all of the power demand on our sites, and export any remainder onto the local distribution network.

Our standby diesel generators are located on our operational sites to ensure power resilience; however, we have also invested in some of these assets so that they can also be used to keep our customer's bills down by reducing the impact of Triad charges. This generation also delivers significant assistance to the national transmission and local distribution systems, and therefore we strongly believe that this support should be recognised by continuing to receive an appropriate level of embedded benefits in addition to any Capacity Market payments. Before making any changes to the current level of embedded benefits, we believe it is vitally important to recognise the overall true benefit that this generation provides to both the transmission and distribution systems.

The open letter refers to the growth in distributed generation as "leading to an inefficient mix of generation", and therefore we believe that it is important to highlight the following points:

1. We are utilising existing assets that are already required for site power resilience.
2. The running hours of our diesel generators for Triad are typically less than 60 hours per year.
3. Our Triad running reduces the need for on-load testing of these assets.

4. The reduction in transmission and distribution losses from embedded generation should also be factored in when comparing with the efficiencies of transmission connected generation.

As a major energy user, we are also concerned that the removal of embedded benefits may increase the risk to security of supply, particularly in the short term. The removal (or concern over the removal) of embedded benefits is likely to impact upon the development of new-build distribution connected generation, including generation that has already obtained Capacity Market agreements. Also, the removal of embedded benefits is likely to result in a change in the utilisation of existing distributed generation (that may or may not also have obligations under the Capacity Market).

As well as creating a risk to security of supply, we are also concerned that impacting upon embedded generation in this way is likely to reduce competition and increase the clearing price of future Capacity Market auctions. This would lead to an increase in energy costs for consumers, including Anglian Water and our customers.

If any changes are made to embedded benefits then we agree that transitional arrangements need to be carefully considered. Grandfathering the current arrangements would appear to be the best way of minimising any of the potential risks of changes that we have highlighted above. If this is not feasible, however, then it would be preferable to introduce either some form of split implementation or delayed change on the basis that we have invested, and are currently still investing in our existing embedded generation. Failing that, no changes at all should be implemented until at least as far ahead as it is possible to tender for STOR (currently after March 2018).

Yours sincerely,



Matthew Pluke

Energy Manager



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