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By email frances.warburton@ofgem.gov.uk

Dear Francis

Charging arrangements for embedded generation

I am writing in response to your Open Letter on the above matter. This letter is sent by BWSC North Lincs Limited, an embedded generator co-owned by Copenhagen Infrastructure Partners, a fund management company founded in 2012, and BWSC A/S, an EPC and O&M Contractor with interests in various power generating assets in England, Scotland and N. Ireland as well as continental Europe, Africa and the Caribbean.

We are alarmed and concerned by the tone and content of your open letter and believe that changes to the charging arrangements for embedded generation risks further undermining investor confidence in the UK's energy assets, already shaken by policy announcements including the unexpected cessation of renewable LECs in 2015. Our investors have invested in the development, construction and operation of embedded renewable projects in the UK including biomass plants at Brigg (Lincolnshire), Snetterton (Norfolk), Templeborough (Yorkshire) and Sandwich (Kent). As a result they see themselves as long-term investors and operators of generation in the UK.

Investors in the UK look for a stable investment environment and whilst recognising that there have been a number of reviews into embedded benefits, BNLL noted the outcome of National Grid's recent review "transmission charging arrangements for embedded generation" which indicated that the only area for immediate further development was in connection with exporting Grid Supply Points (GSPs.) We now see that this work has now been put on hold as National Grid decided to

undertake a wider review of commercial arrangements related to transmission charging, rather than focus on exporting GSPs in isolation, and this and the further initiatives from Ofgem are extremely unhelpful when trying to establish a framework for development and investment in new assets.

We note the economic arguments set out in the Open Letter and references to other studies, views etc. We do not think that a clear economic case has been made that embedded generators are over-rewarded and note the absence of any independent analysis or data sources for the figures and charts provided. We also question the assertion that *“there seems to be a widespread view in the industry that the current level of the TNUoS demand residual payments, as one element of embedded benefit, is currently higher than is justified”*. BNLL believes that the arrangements need to be taken in the round. Focussing on just one element, the Demand Residual, will not necessarily show the whole picture. Developers, generators and other parties respond to a whole range of signals, and embedded generators face additional costs from Distribution Use of System charges and generally have a lower level of security and/or protection from being curtailed by system constraints than their counterparts who are directly connected. Any review needs to take this into account before making changes to a settled system.

As for consumer costs, terminating a payment currently made to embedded generators (and/or imposing new charges on them) could in the short term have a distributional effect to the benefit of consumers as a class (versus embedded generators as a class). However, this may not be the case in the longer term since reduced participation from embedded generators and/or the need for additional income replacing any lost embedded benefits would ultimately be paid for by consumers. Indeed, even in the medium term it seems a reasonable expectation that capacity market prices would be driven up by removing embedded benefits. This would result in higher prices paid by consumers with greater returns for existing non-embedded generators who benefit from the higher capacity income.

More generally, new investments in UK generation assets are being driven by the specific support regimes and this is surely the key “distorting” element in the system. Removal of embedded benefits would not necessarily reduce consumer costs since greater support would be needed to incentivise projects without the contribution from embedded benefits and/or the increased costs of paying for transmission access even if not actually used by the generators concerned. Furthermore, despatch decisions by supported generators in the ROC or CfD regime will not be affected by the existence or otherwise of embedded benefits, since the incentive is always there to maximise output.

For existing embedded generators, many will be reliant on the income from embedded benefits to secure their revenue stream and this will have been an integral element of the financial case at the final investment decision (FID). BNLL itself has seen a reduction in revenues from brown power price and ROC revenue of some 30% when compared to FID. As a result it is argued that any change should have appropriate grandfathering provisions to protect the integrity of these investments.

The Open Letter highlights the need for coordination, noting not only the proposed modifications to the CUSC, potential changes to BSUoS and other embedded benefits, fixed cost allocation and other work on charging at distribution level with the CDCM and EDCM reviews; at transmission level with the National Grid review and at a cross transmission and distribution level with the ENA overseeing several working groups and Energy UK considering network charging arrangements. This level of

activity across different codes, working groups and other bodies makes it extremely difficult for all parties, particularly smaller ones, to follow the issues, let alone contribute effectively. If there is a case for amending the charging arrangements for embedded generation, this should only be explored through the Significant Code Review process and we would urge Ofgem not to accept short-term “fixes” as proposed in the two on-going CUSC modifications.

Without a rigorous process being put in place to examine all the issues together, there is real risk of ad-hoc incremental changes further undermining investor confidence which will be to the long term detriment of the consumer.

Yours faithfully,

Ian Gaunt

General Manager

BNLL