

Ofgem,
9 Milibank,
London, SW1P 3GE

Sent by e-mail to: andrew.self@ofgem.gov.uk

8 August 2016

Dear Charging (Electricity) Team,

Open letter on charging arrangements for embedded generation

Gazprom Marketing and Trading Limited ("GM&T") welcomes the opportunity to comment on Ofgem's review on charging arrangements for embedded generators. GM&T is a UK registered wholly-owned subsidiary of the Gazprom Group ("Gazprom") active in the marketing and trading of energy commodities worldwide including power, gas, oil, LNG and carbon allowances.

In the UK, GM&T is present in both the wholesale and the retail power markets and it has therefore an active interest in the charging arrangements for distribution-connected generators. We believe there are a number of additional elements Ofgem should consider and have outlined these below.

Transmission Network Use of System Charges – embedded benefit

We understand that the locational element of the Transmission Network Use of System Charges (TNUoS) demand charge is appropriate for setting the incremental cost of the use of the GB transmission network in different geographical zones. However, using only this cost to reflect the avoided cost of embedded generation increase the risk of distortion and of not having a cost-reflective transmission charging.

The residual element of the TNUoS demand charge recovers the shortfall between the total revenue that National Grid is allowed to recover and the locational element. Thus, the residual element seeks to recover the costs that relate to the existing transmission network such as: i) depreciation which is part of the triad charge and derived from estimated future reinforcement costs; and ii) direct and indirect costs of operation and maintenance of the grid.

In this context, we believe that embedded generation reduces these costs by avoiding long and short term demand of transmission and the related costs highlighted above and therefore, it seems reasonable for embedded generation to be compensated for offsetting these costs.

Distribution Use of System Charges – embedded benefit

We believe that embedded generation is disadvantaged in the current framework of Distribution Use of System Charges (DNUoS). On the one hand, intermittent generation connected to the Extra High Voltage (EHV) is not eligible for a credit based on the amount of units exported. On the other hand, non-intermittent EHV generators receive a credit rate that applies to the super-red time band which is subject to cover only the period of November to February. Thus, EHV generation does not benefit from credits for any export outside of the super-red time period. We are in favour of considering the application of DNUoS credits for intermittent generation at extra high level and for non-intermittent at periods outside of the super-red time period.

Balancing Services Use of System Charges – embedded benefit

We are comfortable with the Ofgem's analysis on the fact that the Balancing Services Use of System Charges (BSUoS) embedded benefit is smaller compared to the other embedded benefits and has marginal impacts on the dispatching decisions. Furthermore, as stated in the open letter, there are significant interactions with possible future developments of local balancing, therefore this embedded benefit needs to be part of a more holistic approach including other changes related to flexibility issues. We are of the view that the socialisation of constraint costs through BSUoS is an appropriate approach and we are supportive of continuing in the current model.

We hope the comments above prove helpful. Please do not hesitate to contact me on 020 7756 9428 or at mauricio.cepeda@gazprom-mt.com in the first instance should you have any questions.

Yours sincerely,

Mauricio Cepeda
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Gazprom Marketing & Trading.

Unsigned as sent by e-mail.