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Charging arrangements for embedded generation

Calon response to OFGEM open letter dated 29 July 2016:

https://www.ofgem.gov.uk/system/files/docs/2016/07/open_letter_-_charging_arrangements_for_embedded_generation.pdf

Calon Energy (Calon) welcomes the move towards a fairer, and more strategic, approach to encouraging investment and maintaining existing assets.

Calon operates 3 CCGT power stations totalling 2.1 GW of capacity; Severn Power, Sutton Bridge and Baglan Bay – where there is also a small unit contracted to the STOR market. The Calon assets are directly connected to the transmission network and do not benefit from the over-reward of embedded generation outlined in the paper. However, as a relatively new entrant we have found the ongoing closure of large plant has placed an increasing burden of transmission costs on generators, such as ourselves, who have stayed in the wholesale market.

Calon acknowledges the concerns set out - the energy system is rapidly changing to meet shifting priorities but participants are subject to a myriad of piecemeal regulatory interventions. As set out in Dieter Helm's recent paper* there is a strong case for a complete overhaul of the current policy framework, to which a Significant Code Review in this and related areas is certainly ideologically attractive, in pursuit of a cohesive, enduring framework. However, we do not believe that doing nothing in the short-term is an option; whilst an holistic solution is preferable a more immediate but less comprehensive intervention is necessary to avoid further distortion of generation and network investments. This short-term intervention is necessary but not sufficient.

Calon is in agreement that the current incentives in this particular area if left unchecked will risk inefficient and unfair outcomes, particularly in the context of pending capacity market investment, and also dilution of wholesale price signals during times of peak demand. Embedded generators can currently access a number of markets, and are seemingly rewarded for the same MW of power multiple times e.g. through a combination of STOR, the wholesale and capacity markets and via the embedded benefits outlined. This is also in the context of the embedded generation not being subject to the same stringent environmental legislation as larger plant, e.g. the IED.

If incentives are not made proportionate, there is a risk that embedded generation becomes legitimised as a short-term fix for security of supply without sufficiently recognising operational risks and unintended consequences. A primary concern of Calon is that it artificially undercuts and displaces CCGT in the forthcoming T-4 capacity auction based on unsustainable economics, delaying

investment in proven CCGT plant recognised as needed to replace coal. Unlike some embedded generation, CCGT is centrally dispatched and 'visible' to the system operator so there tends to be a greater certainty it will deliver, making dispatch more efficient. CCGT will also guarantee the flexibility and ancillary services certainly required in the energy system in the medium-term. Finally, most of the common embedded generation technologies in question are the fossil-fuel based technologies of the past rather than those of the future, e.g. batteries and smart grids.

In the absence of a more comprehensive review and based on the evidence provided, Calon supports measures to curtail the growth of embedded generation stimulated by over-reward. Therefore, the proposed modifications tabled by Scottish Power and EDF (CMP264-20 and CMP 265-21) are directionally consistent with this. Calon feels consideration should be given to extending CMP264-20 to all existing embedded generation, not just that commissioning after 30th June 2017. If a harmful market distortion exists then why not go further to correct it? In a similar vein the EDF proposal also falls short in our view in that all embedded generation should be subject to the modification, irrespective of capacity market contracts.

We also believe that to ensure assets are not stranded, there should be some grandfathering of assumed benefits.

From Calon's perspective the on-going closure of large plant has placed an increasing burden of transmission cost on those remaining in the wholesale market, so these measures are welcomed as a first step towards creating a more level playing field for both existing asset returns and rational future generation investment.

*<http://www.dieterhelm.co.uk/energy/energy/greg-clarks-energy-agenda/>

Yours Sincerely



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