

Frances Warburton
Partner, Energy Systems
The Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

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Dear Ms Warburton

Open letter: Charging arrangements for embedded generation

Thank you for the opportunity to comment on OFGEM's thinking on the above.

Community Energy Scotland is Scotland's national community energy charity supporting the development of confidence, resilience and wealth at community level through sustainable energy development. We have replied separately on behalf of members in the Outer Hebrides and Orkney, where there are concentrations of community-owned embedded generation.

Our key point in relation to your open letter is that we think that it is appropriate to undertake a review of system charging, but it is unfair and counterproductive to focus this solely on Embedded Generators. We would also emphasise that a further cut of income to community generators will further erode confidence at community level for new community energy projects to proceed, given the recent series of adverse UK policy and incentive decisions.

As you may know, projects operated by our community members currently channel any income received towards the social, economic and environmental advancement of those most in need within the individual communities concerned. Removal of embedded benefits will affect the amount of support community energy projects can provide to the most vulnerable in our communities and, in turn, reduce awareness and engagement in tackling energy issues such as fuel poverty alleviation.

However, we do not believe that the benefits to EGs we represent are of a sufficient scale to distort the market in generation as any advantage to EGs is offset, especially for community projects, by higher installation charges, higher grid connection costs per MW and typically more challenging environments for installation. In particular, community projects in Orkney which have active network management connections under the Registered Power Zone are

Registered Office: 67a Castle Street, Inverness, IV23DU

Tel: 01463 417104

E mail: info@communityenergyscotland.org.uk

www.communityenergyscotland.org.uk

Registered Company No. SC333698 Scottish Charity No. SC039673

VAT No. 927 4349 04

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already experiencing increased costs, reduced revenues and higher uncertainty though non-firm generation connection agreements.

At the same time, Transmission connected generators already benefit from shallower connection charges, economies of scale for installation, increased PPA values, access to wider revenue streams through ancillary services and larger generation portfolios.

Given the relatively small scale of the impact, a more proportionate and up to date approach would be to allow DNOs to increase DUoS charges for metered DG that increases export from Grid Supply Points (GSPs) at peak times and for a proportion of this DUoS to be paid to Grid. This would be aligned with the way the system is already evolving and would reflect the improvements in monitoring and control that are coming through new technology (smart meters, sophisticated inverters etc). It would also incentivise DG (and DNOs) to manage their output rather than just penalising them without any equivalent reward mechanism, which is what the removal of embedded benefits would represent.

Rather than that generator liaising with National Grid, it would make more sense for it to be managed via the DNO (and supplier who pays the DNO). This is the whole idea of a 'Distribution System Operator' model which is what DNOs are supposed to be moving towards anyway.

Finally, we believe that to remove the benefit from all EGs would be counterproductive as it has already been recognised by the NTBM and QMEDC consultations from Ofgem that embedded generation is a key driver for most of the innovation on the electricity network.

For these reasons we believe that OFGEM should not seek to remove embedded benefits but undertake a more comprehensive review of the charging regime which takes more account of the different characteristics of embedded generators and reflects the way the systems needs to evolve.

Yours sincerely,



NICHOLAS GUBBINS
Chief Executive