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20<sup>th</sup> August 2016

## **Response to Ofgem's 'Open letter: Charging arrangements for embedded generation'**

Following the publication of Ofgem's open letter regarding the charging arrangements for embedded generation (29<sup>th</sup> July 2016) we are writing to you to provide our views around the issues raised (below).

### **1. Outlined approach and arrangements**

We are concerned with the approach that the regulator has outlined to review the impacts of embedded benefits. A Significant Code Review (SCR) would have enabled a more comprehensive review of these benefits, and would ensure that the proposed changes do not create more bias than they seek to eliminate.

By attempting to level one playing field the outlined proposals could unintentionally change another, and we feel that a more considered approach that can analyse the potential impacts in more detail is required.

### **2. The future role of Embedded Generation (EG)**

The outlined proposals do not appear to consider the important role of EG in the move to a more decarbonised energy industry. Electric Vehicles (EV), electricity storage and Demand Side Management (DSM) are an important part of the energy future which, together with EG, will be able to deliver significant savings to the consumer and reduce demand on the grid.

Any proposal to review the ways in which EG is rewarded will need to be more forward-thinking in its approach, to ensure that consumers are able to benefit from future savings, and that the overall costs do not increase if EG is no longer viable.

To consider the impact of EG, but to not at the same time take into account the impact of embedded storage or demand side management, would mean that any solution, should one be required, would only focus one on element of the issue going forward. A proper review as part of an SCR would take these elements into account and provide a more future proofed solution.

### **3. EG Growth Assumptions**

We would query some of the assumptions for EG made in section 3.1 of the open letter, as EG is unlikely to increase significantly in the future due to the reduction and removal of Government schemes such as the Feed-in Tariff and Renewables Obligation.



Without access to subsidies fewer EG schemes are financially viable. To become commercially viable new EG sites will need to achieve additional value via onsite PPA's, private wire schemes or incorporate DSM and/or electricity storage, meaning that new EG sites will need to be located closer to areas of high onsite demand.

#### **4. Summary**

In summary we are concerned that the proposals outlined by Ofgem for the review of embedded benefits do not consider the future impact of EG in a transition to a decarbonised energy industry, nor do they consider the impact of storage or demand side response, which could have a similar impact on the transmission network

We are concerned that that the proposals, as outlined in the open letter, will create further distortions unless a more detailed and considered review is undertaken which considers how the transmission and distribution networks should support each other in a decarbonised energy system. The current focus of the open letter seems to be more about how to finance the transmission system.

If you require any further comments regarding the views expressed in this response, then please contact me using the contact details below.

Yours faithfully,

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