

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

Date: 15 September 2016

Dear Ms Warburton

Charging arrangements for embedded generators

Community Power Orkney (CPO) is a consortium of 6 community owned wind energy schemes, supported and facilitated by Community Energy Scotland (CES), Scotland's community energy development charity. Across the group we have over 5MW installed capacity connected to the Orkney distribution network.

We would like to raise our significant alarm and concerns regarding OFGEM's open letter on changes to the current charging arrangements, as this points to a significant departure from the situation to date, where these charges have rightly been in line with the positive benefits which Embedded Generators (EG) have on local network.

It has always been understood that smaller EGs help to reduce system losses and support DNO's in times of peak demand, as well as increase export onto higher voltage levels in areas of lower demand. Generally 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. It therefore seems only fair that the varying charging regimes demonstrate the level of network support provided, as well as the heightened risk and extra cost in doing so.

Our community projects currently channel any income received towards the social, economic and environmental advancement of those most in need within the individual communities in which we serve. We therefore cannot stress strongly enough the adverse impact this change in the charging regime would have on smaller, community based projects. Not only could it potentially limit the number of groups generally who would be able to build new projects due to already enhanced difficulties with grid connections, the removal of the climate Change Levy and cuts to incentives, but it could also cause unnecessary financial strain on those projects which have already been built. This is especially true in Orkney where our existing community generators already experience increased costs, reduced revenues and higher uncertainties through new-non-firm generation connection agreements as part of the distribution level Active Network System under the RPZ.

This proposed change in charging regime will affect the amount of support community energy projects can provide to the most vulnerable in our communities by around £15,000 per annum, for a 900kW turbine. To date this sort of money has funded and supported local community resilience and regeneration, and specifically supported initiatives to reduce the high cost of energy and inordinately high levels of fuel poverty in the region, insulation and energy efficiency schemes to

lower fuel bills, “within community” and end of life care, job creation and lifeline community mobility services.

We believe that to remove the benefit from all EGs is unfounded, and simply increases the disadvantage of an already disadvantaged sector. It has already been recognised by the NTBM and QMEDC consultations from Ofgem that embedded generation is actually driving most of the innovation on the electricity grid. This is never more so than in Orkney at this moment, both on behalf of the DNO, community and private generators and users.

We also suggest, given the relatively small scale of the impact, if alteration was deemed necessary, a more proportionate approach would be to allow DNOs to increase DUoS charges for metered EG that increase export from Grid Supply Points 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 incentivise EG (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. By making this differentiation it could also allow focussed positive future support of further innovation and increased benefit of EG for all.

It does seem to us that the main driver for this change seems to be the success of embedded diesel generators at winning auctions in the capacity market and frequency response contracts. Surely this could be addressed directly by the selection criteria for those auctions rather than penalising the entire DG sector?

In conclusion, can we ask that OFGEM seriously consider the repercussions of such a decision on smaller generators, who typically already face higher installation charges, higher grid connection costs per MW and generally more challenging environments for installation, a situation which has been amplified both financially and technically within Orkney.

We feel there needs to be a full and detailed review which takes into account all fundamental issues, including the benefits EGs bring to rural networks, the importance of innovation of our networks, the improvements provided to weak or poor grid infrastructure and the follow on benefits that the income from community schemes provide such as the tackling of fuel poverty, training and employment benefits and housing provision, amongst other things.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Mark Hull', written over a horizontal line.

Community Power Orkney

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