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DONG Energy response to the Ofgem Open letter: Charging arrangements for embedded generation

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DONG Energy is one of the leading energy groups in Northern Europe. Headquartered in Denmark, we have an interest in several European markets and cover a wide range of energy sector activities. In the UK, we are the market leading developer and operator of offshore wind farms.

Our ref. Ofgem Response - Embedded
Generation Charging

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We welcome the opportunity to respond to your open letter, dated 29 July 2016, on the charging arrangements for embedded generators. We support the position that embedded benefits may be potentially distorting investment and operational decisions, leading to inefficient outcomes for the energy system and consumers. We view that embedded benefits need to be reviewed, so that generators using the electricity system, whether they are transmission connected, distribution connected, or behind a meter, face charges and benefits that accurately reflect their impact on the electricity system.

However, we are concerned that the approach set out within your open letter may potentially further distort the electricity market. It is key that any potential modification or alternative that you approve is not unduly discriminatory. If you treat new embedded generators differently from previously connected generators, there should be some reason or justification for that treatment, and it should not simply be due to the timing of their connection. In general, we are wary of any proposals that will cause users of the transmission network to be treated differently based on their time of connection, and support the principles of the CUSC being fair, transparent and non-discriminatory.

Furthermore, we view that it is essential that any decision is based upon firm evidence. We agree that the significant increase in the TNUoS demand residual has increased the revenue an embedded generator may earn, without any fundamental change to how they impact the transmission network, and the associated avoided transmission costs. However, the proposed solution to this issue must carefully consider the evidence; it must consider the impact of embedded generators and be cost reflective, and should not introduce a potentially significant change solely on the basis that they now earn more revenue.

Overall, we agree that embedded benefits need to be reviewed, but the options proposed by CMP264/CMP265 may be significantly discriminatory and not cost-reflective, and may further distort the electricity market and undermine the principles of the CUSC and the regulatory framework. We recommend that you undertake a holistic review of the charging arrangements, as the electricity system is rapidly evolving and the charging arrangements are no longer fit for purpose. This should also ensure that all users of the transmission and distribution networks are treated fairly and cost reflectively.

If you have any questions on our response, please feel free to contact me (020 7811 1055, amos@dongenergy.co.uk).

Yours sincerely

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