

Frances Warburton
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Dear Frances Warburton,

Response to 'Open Letter: Charging Arrangements for Embedded Generation'

Thank you for the invitation to respond to the above document. Good Energy is a fast-growing 100% renewable electricity supply company, offering value for money and award-winning customer service. An AIM-listed PLC, our mission is to support change in the energy market, address climate change and boost energy security.

We support a review of the transmission system charging regime but have significant concerns regarding the approach proposed in the open letter. The design of the charging regime is an extremely complex issue, and any attempts to impose changes quickly or to adjust one aspect in isolation, without taking the time to consider all areas of the charging regime, risks significant negative unintended consequences. Introducing changes in this fashion also risks undermining investor confidence in a fast-growing sector which continues to bring significant value to the UK economy during times of economic and political uncertainty. It seems particularly unwise to consider major changes to revenue streams that undermine the viability of existing and planned embedded generation at a time when system margins are tightening and becoming of increasing concern. We are particularly concerned by the potential impact on a number of renewable generation schemes, particularly wind generators. Last winter, although some sites had limited output over the triad period, a number of our contracted sites had significant output over the triad periods¹, reducing the need for grid reinforcement.

It is clear that a large-scale, well-resourced review of all aspects of the charging regime for both distribution & transmission networks is necessary to ensure that an enduring charging regime which is fit for purpose to support the transition to a low-carbon energy system can be implemented. There are major differences between the charging regimes for distribution and transmission networks. For example connection charge policies tend to be more onerous for distribution connected generation because connection charges for transmission connected generation only include the cost of sole user assets. Whilst we share Ofgem's concern at the projected increase in the TNUoS demand residual we believe this to be driven by a number of factors including the costs of accommodating additional transmission connected generation in Scotland.

It is essential that any code modifications which are designed as interim measures, such as CMP264, are not allowed to become an enduring solution, and that any interim measures that are introduced take sufficient consideration of the need to protect investor confidence. We propose that current levels of triad benefits should be frozen in real terms; this addresses concerns about significant inflation in the short term, giving

¹ Figures cannot be offered owing to the commercially sensitive nature of contracts.

Ofgem and the industry time to establish the best design for an enduring charging regime, with minimal risk to investor confidence.

Any future transmission charging regime must be consistent with the objectives of the CUSC – any charges or payments to an individual party must be proportionate to the respective costs and benefits which that party brings to the system. It would therefore be inappropriate to levy charges on a gross basis - output from embedded generators is generally consumed locally thereby making no use of the transmission system. It would not be in keeping with the objectives of the CUSC to charge generators for use of an asset which they do not make use of. The amount of transmission network capacity required is determined by net, not gross, power flows and the net power flow from increased embedded generation or reduced demand is the same and should be treated similarly for TNUoS charging purposes.

If increasing amounts of generation behind a GSP are causing GSPs to be reinforced to accommodate export, it may be appropriate to introduce specific cost reflective charges for those exporting GSPs. Such charges should be levied on Distribution Network Operators so as to provide them with appropriate signals for:

- managing their networks and potentially facilitating a transition to smart networks and becoming Distribution System Operators in Great Britain;
- making least cost choices between investment in distribution system reinforcement and additional charges for increased capacity at GSPs.

When establishing a new charging regime, it is essential that the process is as transparent as possible – any underlying economic assumptions regarding the level of the benefits that embedded generators bring to the energy system must be clearly published, so that all stakeholders are able to fully engage in the design process.

When designing a new charging regime, it will be essential to take account of nascent technologies and business practices emerging within the industry. Many of these are likely to be essential to delivering a low-carbon energy system at least possible cost - some reports forecast the falling costs of battery storage are likely to lead to an even greater impact on the energy system than solar PV has done. Any charging regime must not undermine growth markets such as this. It is also essential that any changes do not simply drive investment toward behind-the-meter generation – this would lead to a number of the benefits that embedded generators bring to the system being lost.

I hope you find this response useful. If you have any questions, please do not hesitate to contact me.

Kind regards,

Tom Steward

Wholesale Regulatory Officer