



## Silva Renewable Energy

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### **Re: Open letter - Charging Arrangements for Embedded Generation**

I refer to Ofgem's Open Letter of 29<sup>th</sup> July 2016. Set out below are our views on the issues it raises in relation to transmission charging arrangements for embedded generation.

Silva is the developer behind the Grangemouth renewable energy scheme, a s36 consented 120MWe biomass CHP ("Grangemouth CHP") in the strategically important Grangemouth petrochemical and industrial processing zone. Grangemouth CHP is being prepared for the second CfD allocation round which is expected imminently.

Grangemouth CHP has arranged a transmission connection agreement, but is also advancing the option of a distribution connection in line with the Scottish Government's preference for locally and community focused renewable energy schemes. The distribution connection is now at offer stage with the associated BELLA expected in the next week or two.

Assuming a successful outcome at CfD, Grangemouth CHP would be constructed and commissioned in time for the 2021 delivery year. It is a project that has immense economic benefit for the Grangemouth industrial area and broader Falkirk community, and is being closely followed by Falkirk Local Authority, the Scottish Government and various Government Departments in Westminster.

Against this background we have been preparing our bid in the forthcoming CfD auction using the transmission charging baseline as it stands, but following closely the recent developments with regard to the embedded benefit review and the Consultation and how these may impact our distribution

connection offer. This is particularly important to Grangemouth CHP as, in unchanged circumstances unaffected by the embedded benefit review and Consultation, a distribution connection would help greatly the project economics and enhance the deliverability of Grangemouth CHP under the CfD regime with the commensurate benefits to the local community and wider national interest.

We are strongly opposed to any proposal for embedded benefits which is not enduring and stable, and would not support competition under the CUSC charging objectives.

It is recognised that Ofgem has raised concerns over the cost-reflectivity of the triad benefit and wishes to see change. We do not believe that the options which we understand are under formal consideration address this problem, and they would simply introduce further distortions and discriminations into the current CUSC baseline. They do not bring charges in line with costs nor reflect developments in the transmission system. It is clear that for a robust solution to be identified considerable further work is needed, and the key is coming forward with a revised charging methodology that captures the true benefits of distribution-connected to the system, and not just National Grid's avoided reinforcement costs.

This situation – especially the prospect of no early resolution - gives rise to considerable risks to us and other developers. It is virtually impossible at this stage to call what enduring solution might emerge. Whilst some reduction in the triad benefit may be one outcome, we estimate that any such result could add a significant premium to the required CfD strike price. This is contrary to HM Government's key objective for CfD, namely that any subsidy for renewable energy must achieve value for money to the energy consumer.

If we took a worst reduction case, it is highly likely many embedded generation projects seeking CfD support would become uncompetitive. It is simply not the case that the investment community eliminate embedded benefit from their return calculations, a point made very clear to us by our equity partner, John Laing. On the other hand, if we assumed further analysis would result in modest reductions but that proved incorrect, that would probably render the scheme unprofitable even with a CfD. Either outcome would be unacceptable and highly destructive to investor sentiment. It would also greatly diminish the security of supply HM Government's policies in this area are seeking to achieve.

Given the huge uncertainty surrounding the charging regime, the significant regulatory risk that has been introduced into the process I believe explicit consideration be given to the interactions of any change proposals with the CfD regime. The only obvious solution we can see at this stage is to respect



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the assumptions made by developers in making their CfD bids, in effect “grandfathering” them, and the next stage of the assessment process should also address this. Some accommodation to address other potential material changes to the regulatory regime in the future also needs consideration as regulatory risk has significantly increased in the eyes of the developer and financial community.

Please let me know if you have any comments or questions on this submission.

Kind regards

A handwritten signature in black ink, appearing to read 'P. Heasman', with a long, horizontal flourish extending to the right.

Philip Heasman

Chief Executive Officer