

Francis Warburton
Partner
Ofgem

23 September 2016

Dear Francis

Re: Charging arrangements for embedded generation

Thanks you for this opportunity to comment on Ofgem's open letter.

Network Charging for a Flexible Future

Regen has published this week a paper on "Network Charging for Flexible Future" that sets out our view that a holistic review is needed and the principles that should be considered as part of this. I have attached a copy of this paper as an introduction to our response.

Comments on Ofgem letter

Whilst we agree that the network charging system needs to be overhauled, we are concerned that the two potential change options identified in the letter would a) not address the distortion Ofgem has identified in the transmission network charging methodology and b) would arbitrarily penalise decentralised generators including future energy storage and demand side response providers.

It seems odd that, having set out a broad case that the existing system is not fit for purpose, Ofgem would consider two very short term fixes:

- Modification proposal CMP26420 raised by Scottish power would stop any new distributed generator, connecting after June 2017, from receiving embedded benefits. Such a change would not address the issue of cost reflectivity for existing generators and would arbitrarily penalise new entrants.
- Modification proposal CMP26521 raised by EDF, would remove the ability to get TNUoS demand residual payments from all distributed energy generator with capacity market contracts. Again this would not address the issue of cost reflectivity but is intended mainly to rebalance the capacity market away from diesel generators.

Although neither of these options would directly impact behind the meter generation for high energy users, the Ofgem letter suggest that further measures may be taken to curtail behind the meter generators.

"We have considered that changes to embedded benefit arrangements could lead to unintended consequences since it may push more connection of generation behind the meter or connection via private wires, which is likely to lead to inefficient outcomes. This is an important issue that will aim to take into account in future related network charging work."

Overall the approach suggested seems counter-productive. The UK energy system needs more, not less flexibility. There is also an imperative to reduce peak demand and encourage demand side response. The risk of changing the system in a piecemeal manner will be to potentially increase peak demand and reduce available flexible capacity.

Regen SW, The Innovation Centre, Rennes Drive, Exeter, EX4 4RN
T +44 (0)1392 494399 E admin@regensw.co.uk www.regensw.co.uk

Registered in England No: 04554636

Although Ofgem has encouraged the “industry to get involved”, there is also a concern that the detailed charging code modifications raised by large utility generators, who clearly have a commercial interest in the charging mechanism, may not be fully considered by the wider industry, high energy users and key stakeholders. Neither the Open Letter, nor the changes to the distribution network charging methodology, has assessed the widespread impact of changes to the treatment of embedded benefits.

We would highlight that the papers used to document charging modifications (for example DCP228) are almost impossible to read and understand by anyone outside the sanctum of network charging. In the past, with only a few generators and supply companies, this may not have been an issue, but now with the democratisation of energy generation and the direct engagement of a large number of high energy users through demand side response, a more transparent engagement is needed.

Rather than pursue either of the proposed modifications options Regen SW would encourage Ofgem to look more holistically at the problem and endeavour to create a long term framework that will encourage, and not dissuade future investment in flexibility.

Underpinning such a charging system should be a set of key principles including cost reflectivity and the promotion of competition but also recognising:

1. The inherent network saving of decentralised energy generation and local supply
2. That peak demand, although not the only cost driver, is still the primary driver for infrastructure investment
3. The value of flexibility through measures such as energy storage, Demand Side Response and local supply and network balancing
4. The need to encourage innovation and enable new technology for long term cost effectiveness
5. The overall priorities for decarbonisation and energy security
6. The need to engage with, and understand the impacts on, a much wider range of stakeholders including community generators, energy users and local stakeholders.

It would also make sense to try to harmonise and align the methodologies for network charging across the transmission and distribution networks in order to facilitate the transition towards a Distribution System Operator (DSO) model.

The National Infrastructure Commission report “Smart Power Revolution” makes a very strong case in favour of a smarter, more flexible and decentralised energy system which could ultimately save the UK consumer over £8 billion per annum, compared to a system based on redundancy and over capacity. While it may not be the job of the network charging regime to achieve this outcome, it is important that any changes to network charging do not inhibit its development.

Kind regards,



Merlin Hyman
Chief executive