

Ofgem - Open letter: Charging arrangements for embedded generation (29 July 2016)

OVO Energy's response (23 September 2016)

1. Introduction

- 1.1. OVO appreciate the opportunity to respond to this consultation. We share Ofgem's view of the importance of ensuring that the embedded benefits regime (**EBR**) remains fit for purpose. We are also keenly aware of the current effect embedded benefits are having on several industry charges and the pressing need to prevent the transmission network use of system charge (**TNUoS**) demand residual benefit in particular from distorting locational signals for generators.
- 1.2. In responding to this consultation our high level position is that we believe a well designed embedded benefits regime that rewards embedded generators in a cost reflective manner will ultimately deliver better outcomes for all domestic GB electricity customers. Our hope is that a truly cost reflective and stable EBR will create the right incentives to usher in a more decentralised electricity system, where consumers have the ability to become prosumers and in so doing, contribute meaningfully to the decarbonisation and stability of the future electricity system.

Call for wholesale review

- 1.3. In light of the importance of the EBR to the future of the GB electricity system we are proposing that Ofgem, in conjunction with the wider electricity industry, conduct a wholesale review of embedded benefits with a view to reforming the current regime. Our suggestion is that any reform of the regime needs to deliver the following aspects:
 - 1) Embedded benefits fairly reward embedded generators for the costs they avoid on the network.

- 2) The new EBR is flexible enough to adjust to large increases in the amount of embedded generation or a sudden increase in domestic storage
 - 3) Values a unit of reduced demand the same as a unit of extra supply
- 1.4. In conducting this review we would also request that the implications for domestic storage be clearly considered before any decision is made on the shape of the future EBR.

Immediate solution to Triad benefit

- 1.5. As we outlined in paragraph 1.1 we are acutely aware of the effect embedded generators availing of embedded benefits are having on both the capacity market and the demand based TNUoS charges. Our understanding is that current work being undertaken by the Department for Environment, Food & Rural Affairs (**DEFRA**) on emission standards will address some of the effects certain types of embedded generators are having on the capacity market.
- 1.6. In light of the work being undertaken by DEFRA, OVO is of the opinion that there is no longer a pressing need to modify the TNUoS demand residual charge materially in the short term. We are aware of a workgroup alternative proposal to CMP 264/265 that would seek to freeze the existing level of the TNUoS demand residual benefit for embedded generators. We think this would be an appropriate short term solution to the current issue with the TNUoS demand residual while a more permanent solution is developed as part of the wholesale review we have advocated Ofgem to undertake.