

23rd September 2016

The Office of Gas and Electricity Markets
9 Millbank
London SW1P 3GE

Dear Sirs,

We are responding to Ofgem's Open Letter of 29th July 2016: Charging Arrangements for Embedded Generation.

Neilston Community Wind Farm is a 10MW distribution connected wind farm located south of Glasgow. It is a joint venture between the local community (Neilston Development Trust) and Carbon Free Neilston Ltd, a private company. The community borrowed nearly £1m of mezzanine debt from various social lenders in order to contribute 28% of the equity funding to the wind farm project. Both partners invested on identical terms and the community counts on distributions from the wind farm both to repay its own mezzanine debt and to fund community projects and activities. The remainder of the funding for the wind farm is in the form of project financing from the Co-Operative Bank.

All investment in the wind farm (both equity and project finance) was premised on the prior 20 years of TRIAD benefit-based charging principles which provided the equitable embedded benefit exemption for those generators not using the transmission system.

We are concerned that OfGem is now focussed on equalising charges to improve the economics of specific market players in the Capacity Market and that proposals to move to gross charging for embedded generators attempts to make the costs of using different networks comparable; akin to trying to equalise fuel costs between different types of generation.

By arbitrarily changing the fundamental charging principles on which the financial models of all distributed generation have been based to date, it is not an overstatement to say that many (if not most) distributed energy projects will no longer be financially viable and banks will be faced with large portfolios of bad debts. In this scenario, future investment in UK energy projects – already severely damaged by government policies relating to LECs and further exacerbated by low power prices - will dry up completely. Plants will be shut down and banks will no longer fund UK energy projects.

The regulator has stated that it intends to approve one of the current CUSC modification proposals being considered under the CUSC process - CMP264 and CMP265. This is patently unjust as distributed generators have very little input into a process that is seeking to have them pick up substantial costs now borne by transmission generators. Most CUSC panel members are employed by companies with significant transmission asset interests. The CUSC panel does not include any members with specific roles in either the distributed generation or industrial energy sectors, removing important perspective and expertise to inform the CUSC Panel's discussions and decisions. Where changes with an impact measured in hundreds of millions of pounds are being decided only by participants with a specific commercial perspective, the independent regulator should play a much more active role.

As most distributed generators are not CUSC parties, there is no clear route for companies who do not have expertise in these processes to propose CUSC modifications better to address the issues raised in the Open Letter. OfGem has advised that if distributed generators wished to make a CUSC modification they could do so by persuading a CUSC panel member to support one. This is a wholly inappropriate and unworkable solution as almost all of the CUSC panel members (SSE, Uniper, ENGIE, Scottish Power and EDF) have proposed alternatives to remove the embedded benefit entirely.

The CUSC modification proposals represent a 'David and Goliath' situation for distributed generators and it is another (if not the final) nail in the coffin for small generators. Moving forward with the current CUSC modification proposals, as OfGem has said it will do, will destroy many small generators and will take future investment in UK energy projects with it. We would encourage OfGem to reconsider its views stated in its Open Letter and insure that any proposal for change is equitable and that what little competition there is in the UK energy market is not wholly killed off in order to build the capacity market.

Yours sincerely,



Bonnie Priest

Director

Neilston Community Wind Farm LLP

cc: Kirsten Oswald – MP, East Renfrewshire
Tom Arthur – MSP, Renfrewshire South
Maurice Golden – MSP, West of Scotland