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Dear Andrew,

Response to Minded to Decision on Charging Arrangements for Embedded Generators

Thank you for the opportunity to comment on the minded to decision with regard to the electricity transmission charging arrangements for embedded generators.

We do not support the provisional view that WACM 4 best facilitates the CUSC objectives and your statutory duties. We believe that this modification should also be rejected.

The minded to decision continues with the flawed thinking of both National Grid and Ofgem with regard to transmission charging. The whole concept of 'embedded' is misguided: transmission charging should focus on the cost imposed by users of its network, i.e. transmission connected generation and demand (primarily through Distribution Network Operators).

Many of the comments we make in this response will be repeated in our response to your Targeted Charging Review, which again fails to address the issues with the current approach to charging for transmission. The problem is highlighted in your summary, *"TNUoS Demand Residual (TDR) are top-up charges which ensure that the appropriate amount of allowed revenue is collected from demand users once locational, cost reflective, charges have been levied"*. This statement is not true. Whilst some charges are truly residual, most represent costs related to the existing infrastructure which have not been analysed and recovered from existing customers in a cost-reflective manner.

There are clearly major problems with the existing transmission charging methodology which need to be addressed as a matter of urgency. This does not however justify progressing the wrong solutions. National Grid is trying to over-reach into areas best addressed by DNOs/ DSOs. The issues highlighted here would be better addressed by adopting a whole system approach with TNUoS charges being levied on DNOs/ DSOs who would then pass them onto their customers via suppliers. Some of the fixed costs associated with sunk transmission and distribution costs could then be levied through fixed or capacity related charges. This approach would better address the problems caused by the current transmission charging approach.

These modifications are a continued application of silo thinking which must stop.

Charging is a very important area and we are very supportive of the work being undertaken by the ENA's TSO-DSO workstream on charging which is a better vehicle for addressing these issues in a coherent manner. Resolving these issues should be addressed through the

Targeted Charging Review (TCR), however we have major concerns with the proposed focus of this review which need to be addressed. We will set these concerns out in our response to the TCR consultation.

Yours sincerely



Tony McEntee
Head of Commercial Innovation

Question 1: Do you agree with our problem definition and that the Transmission Network Use of System (TNUoS) Demand Residual (TDR) payments to sub-100MW Embedded Generation (“smaller EG”) are distorting dispatch, wholesale price, the capacity market (CM) and that they pose an increased cost to consumers?

No. The problem lies with the Transmission Charging Methodology which is based on the hypothesis that only 10% of the revenues are allocated through cost modelling and that these costs are driven by the net demand. The more problematic assumption is that the remaining 90% of revenues are merely to up revenues and are not subject to any review of the costs or what is driving them. It also assumes that these should also be recovered through net demand which is unlikely to be the appropriate cost driver.

If the tariffs are thought to be causing distortions then the underlying assumptions need to be reviewed. It is not appropriate to merely tweak the answers produced by an invalid costing methodology.

The whole concept of ‘embedded customers’ is flawed and is driving overly complex commercial arrangements. The proposed modification makes matters worse. The Transmission Charging Methodology should focus on direct users of the transmission system not those connected to the distribution system. The Transmission Charging Methodology should pass appropriate signals to users of the transmission system. It is for them to pass these on to their customers. Whatever payments suppliers choose to make to their customers is a matter for them and outside the remit of CUSC. CUSC should focus on ensuring transmission connected demand and transmission connected generation are charged correctly.

Question 2: Do you agree that rising TDR payments to smaller EG is a problem which needs to be addressed?

Possibly but they are justified by the cost drivers assumed in the Transmission Charging Methodology. This is what must change.

Question 3: Do you agree with our interpretation of the applicable CUSC objectives?

No. The relevant objectives relate to the costs on the transmission system which National Grid asserts are driven by the net demand on the transmission system at triad periods. There has been no analysis of the underlying costs or what is or has caused them. The analysis should also focus on direct users of the transmission system, not customers connected to the distribution systems.

Question 4: Do you agree with our assessment against the applicable CUSC objectives and statutory duties? Please provide evidence for any differing views.

No, whilst there is undoubtedly a problem that needs to be addressed none of the modifications can be deemed to better meet the objectives as they undermine the principles on which the Transmission Charging Methodologies are based. Embedded Generation and Embedded Demand Response have the same effects and cost impact yet all these proposals discriminate against Embedded Generation and introduce distortions. Behind the meter generation can also have a similar impact which would not be addressed by the modifications. In any case, behind the meter generation is impossible to fully identify causing yet further distortions.

Question 5: In our assessment against the objectives, do you believe there are any relevant assessments we have not taken into account?

There has been no attempt by Ofgem to assess a whole system approach by evaluating whether TNUoS is best levied through distributors rather than suppliers who would then be

better placed to pass on appropriate costs signal to their customers through the registered supplier. This approach should be considered as part of the Targeted Charging Review.

Question 6: Do you agree with our assessment that, in this instance, grandfathering as set out in the WACMs would be unlikely to best facilitate the CUSC objectives when compared to the other options available to us?

We do not support grandfathering in principle as charging methodologies are subject to change. However, as embedded generation is not a direct party to the CUSC and the charging methodology, the supplier is still likely to be bound by whatever commercial arrangement it has agreed with the embedded generator.

Question 7: Do you agree with our assessment that the value of the avoided GSP investment cost best facilitates the applicable CUSC objectives?

We do not think this is relevant. The focus should be on what cost net demand imposes on the transmission system. Embedded generation and embedded demand reductions have the same effect and to consider them differently is discriminatory.

Question 8: Do you agree with our assessment of the impacts on security of supply? Please provide evidence for provided views.

Whilst the assessments may be valid and reduced payments to embedded generation may be appropriate, these proposals remain flawed.

Question 9: Please provide evidence to show if there are other cost savings which small EG drive in comparison to larger (over 100MW) EG on the distribution system.

Embedded generation will be a key factor in keeping networks costs down if demand increases significantly due to the adoption of low carbon technologies such as electric vehicles. It is important to avoid unnecessary investment in higher voltage distribution systems and in the transmission system that local supply and demand balancing is encouraged with charges based on their net impact on the system. However, there should also be other charges which reflect the costs of being connected to the network regardless of what is being used.

The current approach of levying demand TNUoS through suppliers is one of the fundamental problems. Distributors are best placed to levy these charges and this would provide a better solution to the issues that these proposals are trying to solve.

Question 10: Is there other evidence that payment above avoided GSP/generation residual would better facilitate the applicable objectives?

Payment below the normal levels is not consistent with the underlying cost assumptions and hence cannot be deemed to better meet the relevant objectives.

Question 11: Do you believe you have a legitimate expectation or contractual right for the continuation of TDR payments? If so, please provide evidence.

This is for the embedded generator to pick up with its supplier and is not a matter that needs to be addressed in any review of transmission charging.

Question 12: Do you agree with our assessment of the distributional issues?

The assessment of the distributional effects of the proposals looks reasonable.

Question 13: Are there any sectors that we may have overlooked?

We haven't identified any.

Question 14: Do you agree with our modelling approach?

No. The modelling should focus on whether the modifications better reflect the costs on the transmission system. Whilst the analysis may indicate perceived consumer benefits these will be illusory if the underlying approach and cost assumptions are flawed, which they are.

Question 15: Do you think that our background assumptions and using FES data is an appropriate approximation for status quo?

We do not agree with the modelling approach.

Question 16: Where WACMs are not modelled directly, do you think our assessment is appropriate (see appendix 8 for detail)?

We do not agree with the modelling approach.

Question 17: Of the options available to us, do you agree that WACM4 best facilitates the applicable CUSC objectives?

No, all of the modifications should be rejected and this issue addressed in a refocused Targeted Charging Review.

Question 18: Do you believe that an implementation date of April 2018 best facilitates the applicable CUSC objectives?

No, none of the proposals should be implemented