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12<sup>th</sup> April 2017

Dear Andrew,

**Consultation on Ofgem's Minded to decision and draft Impact Assessment of industry proposals (CMP264 and CMP265) to change electricity transmission charging arrangements for Embedded Generators.**

The British Hydropower Association [BHA] welcomes the opportunity to comment on this consultation.

The BHA is the professional trade body dedicated to representing the interests of the UK hydropower industry and its associated stakeholders in the wider community at regional, national and global levels.

Membership of the association is open to any organisation or individual involved in or with an interest in hydropower. Members include generators [from Pico to large, run-of-river, tidal range and storage], design and consulting engineers in all disciplines, developers and owners, contractors, operators, equipment and component manufacturers and suppliers, project managers, financiers and investors, insurers and environmental specialists.

The BHA is concerned with Ofgem's minded to decision. The hydro sector's recent developments have been under the Feed-in Tariff (FiT) regime which caters for access to the market for the smallest of players. These players do not access the Capacity Market ("CM") and hence cannot be considered to be distorting competition. Yet, these proposals, if unchanged, will be highly penal.

The BHA also has a number of members with RO supported schemes for which the impact will be even more significant.

The BHA sees no evidence in the consultation that Ofgem has taken account of this in its assessment, and hence we have concluded it has failed to carry out its duties adequately.

We believe that the issues detailed in this consultation are a result of the wider issue of today's Demand TNUos charging arrangements being no longer fit for purpose. Networks are undergoing a historic shift with the emergence of renewable generation, smart demand and smart storage. We advocate cost reflective charging arrangements and believe that the recently announced Targeted Charging Review [TCR] is the proper route for considering this.

We have structured our response to answer the 18 key questions identified in the consultation.

We also note the Ofgem consultation on the TCR, the purpose of which is to review and change some of the charges that electricity transmission and distribution network users pay for using the networks. This document sets out high level principles on residual charging methodologies including impacts and unintended consequences.

**We strongly recommend, that given the detrimental impact that this decision has on small renewable generators that are not distorting the market, and the unintended consequence of driving TRIAD management generators to 'behind the meter', Ofgem must postpone this 'Minded to decision' and deal with this issue through the wider scoped TCR.**

Yours sincerely,

*Simon Hamlyn*

**Chief Executive Officer  
British Hydropower Association**

**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?

**Answer 1:** We don't agree with the problem definition;

1. The hydropower sector that the BHA represents is predominantly small scale and as such doesn't have a choice to locate on the transmission market. Generation that has developed in recent times does so through the FTT mechanism. TRIAD management isn't a key driver for this type of generation, nor does it compete in the Capacity Mechanism. Hence, it isn't distorting competition nor wholesale prices. **However, the proposals will be penal on the sector.**
2. Those generators that do target TRIAD management as a key driver, such as diesel engines, are subject to the different connection charging regime on the distribution network. **Differences in connection arrangements and charges must also be taking into consideration to ascertain if the current market arrangements are fair and equal.** If Ofgem having considered these additional factors, still conclude that the market is distorted, it can opt to fix the distortion by preventing payments to generators who have a CM contract.
3. The additional cost to consumers is calculated at £350m/year to consumers. However, there is floor in wholesale prices where Feed in-tariff generators will opt for the guaranteed Export Tariff that doesn't pay embedded benefit. Current wholesale prices are at a low level and are predicted to fall further, and informed industry commentators are predicting that the best commercial decision for FiT generators will be Export Tariff. **The analysis provided by Ofgem appears fundamentally flawed as it doesn't take account of this economic floor price,** and hence, the cost impact on customers is not a true additional cost and is vastly overstated.

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

**Answer 2:** It is the cost reflectivity of the TRIAD charge that is the fundamental problem that needs addressing, not the payments to smaller EG. There are several measures that can be undertaken to reduce demand; all of which have the same impact of increasing the charge and reducing the base that it will be recovered from. This decision will drive TRIAD management generation behind the meter, leaving the problem unresolved.

Ofgem should be examining if the current 3-peak model is appropriate given the changing energy network.

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

**Answer 3:** We agree with Ofgem's interpretation of the applicable CUSC objectives.

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

**Answer 4:** In CUSC objective (a) Facilitating Competition. The issue that has been raised is that the CM is being distorted by these payments. In assessing the proposals against this CUSC objective, all costs such as the complex and different connection regimes associated with each form of generation to establish if there is a distortion in the market.

**However, in applying this to EG that doesn't access the CM, Ofgem is proposing a penalty on those parts of the market where there is no distortion.**

In CUSC objective (b) Cost-Reflective charging. Ofgem's provisional view is that current payments made to smaller EG for offsetting system demand are not cost reflective, as the payments do not reflect the level of savings that smaller EG confer on the transmission system. **By reaching this view, Ofgem are in fact concluding that the Triad charge isn't cost reflective, and it is this and not payments to smaller EG that it should be considering.**

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

**Answer 5:** We believe that Ofgem's assessment has identified a larger issue with cost reflectivity of which that it is not taking account.

**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?

**Answer 6: The BHA strongly believes that the option selected is penal for small EG that isn't accessing the market nor causing market disruption.**

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

**Answer 7: As we believe that both the assessment is incomplete, and the wrong conclusion has been drawn, further assessments of impact are being made from a flawed baseline.**

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

**Answer 8:** 4.83 states that Ofgem doesn't believe there to be a major impact on security of supply from CM non-delivery of these providers; **we cannot see where this statement is backed up by detailed analysis.**

**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.

**Answer 9:** The distribution deeper connection's charges have resulted in small EG funding increased security of supply through more robust networks that consumers benefit from.

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

**Answer 10:** Ofgem's proposed SCR detailed in the TCR that was issued for consultation on the 13<sup>th</sup> March details the complex nature and considerations of Residual charging methodology. **The BHA urge Ofgem to postpone this decision and consider it as part of this wide-ranging review.**

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

**Answer 11: The BHA believes that Government and Regulators provide political and regulatory stability and that their decisions are based on fairness and backed by detailed Impact Assessments. We don't consider this decision to be in line with these expectations**

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

**Answer 12:** We believe Ofgem's assessment of the distributional issues has highlighted fundamental issues with the price reflectivity of TDR and the different treatment of various approaches to Triad management. **This reinforces our view that these need to be dealt with under the TCR and not in this inefficient piecemeal approach that will result in serious unintended consequences and introduce further anomalies.**

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

**Answer 13:** It is not clear that the impacts identified in the distributional issues have flowed through into the impact assessment and costs on consumers.

**Question 14:** Do you agree with our modelling approach?

**Answer 14: For the reasons stated previously, we believe that Ofgem have reached completely the wrong conclusion.**

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

**Answer 15:** See answer 14.

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

**Answer 16:** See answer 14.

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

**Answer 17:** See answer 14..

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

**Answer 18:** The BHA strongly urge Ofgem to delay implementation and consider the issue as part of the TCR, otherwise our members, who do not distort competition will suffer a penal impact.