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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.**

Green Highland Renewables ("GHR") welcomes the opportunity to comment on this consultation. GHR is a company focused exclusively on developing, building, operating and maintaining hydro-electric schemes. Established in 2007, we are a major player in the UK small-scale hydro sector successfully constructing 42 projects and securing planning consent for over 62 hydro schemes with around 50MW capacity.

We believe that today's Demand TNUoS charging arrangement is 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 now is the time to undertake a holistic review of network charging arrangements.

Our view is that a consultation on the single issue of embedded benefit payments to small embedded generators ("EG") driven by perceived market distortion was flawed for the following reasons;

- **A large number of small generators, such as renewable Feed-in tariff generation do not access the market in the way you describe in your analysis and hence, cannot be considered to be competing with larger scale distribution and transmission connected generators;**
- **Hence, the minded to decision removes an income stream that was available to this generation when investment decisions were made;**
- **Wider issues associated with network costs and charging haven't been factored into the assessment of market distortion.**

Creating as level a playing field between distribution and transmission connected generation is supported, however the differences in connection arrangements and charging must be recognised in any assessment of market distortion. Hence, only a holistic review of charging arrangements will address these issues adequately. This consultation on the minded to decision

reinforces our concerns that dealing with this perceived issue in isolation will introduce further unintended consequences and market impacts.

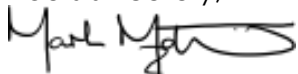
We have structured our response to answer the 18 key questions identified in the consultation. Our key points are as follows;

- **The conclusion that Transmission Demand Residual (“TDR”) payments to EG are no longer cost reflective is a result of the TRIAD signal being no longer a cost reflective charging signal.**
- **TRIAD management has increased significantly over the years successfully reducing peak demand. Hence, what should be being considered is the appropriateness of the 3-peak charging signal in today’s evolving energy system.**
- **By targeting only payments to smaller EG, there are further anomalies created with other negative demand, e.g. behind the meter generation and demand reduction measures.**
- **Dealing with payments to smaller EG and not behind the meter measures, is justified on the basis that Ofgem believes there is market distortion that ultimately costs consumers; however the different distribution and transmission connection regimes haven’t been considered in the assessment.**
- **Hence true market distortion has not been established and the assessment is over simplistic and one dimensional.**
- **Ofgem have assessed that some smaller EG may exit the market; as this is a significant impact and has ramifications for ongoing investor confidence, implementation of this decision should be postponed until a holistic review is concluded.**

We believe that Ofgem can deal with the perceived distortion in the Capacity Market (“CM”) by implementing a restriction on CM contracted generation from receiving TRIAD payments and dealing with the issue on a holistic basis through the recently launched consultation on the Targeted Charging Review (“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. The TCR consultation document sets out high level principles on residual charging methodologies including impacts and unintended consequences.

We therefore strongly advocate that given the detrimental impact that this decision has on small renewable generators that aren’t distorting the market, the unintended consequence of driving TRIAD management generators to behind the meter, and Ofgem’s announcement of a TCR to consider the appropriateness of residual charging methodologies, that Ofgem postpone this minded to decision and deal with this issue through the wider scoped TCR.

Yours sincerely,



Mark Mathieson

CEO

**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 that Ofgem have reached nor justified the right problem definition for the following reasons;

1. Many responses to the initial consultation raised the issue that **Demand TNUoS charging arrangements and the subsequent Triad embedded benefit payment system is no longer fit for purpose**. Given the complex nature of the issues that cut across different network charging arrangements this is a subject for a holistic review of some form. **Ofgem has failed to address these views adequately in its minded to position**.
2. Distortion of the market has not been proven. We support creating a level playing field between distributed and connected generation, **differences in connection arrangements and charges must also be taking into consideration** to ascertain if the current market arrangements are fair and equal. It is unclear that this analysis has been undertaken, and hence the impact of **removing these payments could lead to market distortion**.
3. Ofgem consider that the current methodology results in additional cost of £350m/year to consumers. However, Feed in-tariff generators ("FiT"), which are sub 5MW have the option of opting for PPAs that will include embedded benefits, or 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 real 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:** We don't believe that rising TDR payments to smaller EG is the issue, we believe the issue is the appropriateness of the demand triad signal. **The argument being supported by Ofgem is that the TDR payments to EG are no longer cost reflective; however, the reason that this is the case is that the Triad signal is no longer a cost reflective charging signal- hence Ofgem are treating the symptoms and not the root cause.**

The success of Triad has resulted in a greater level of Triad management, and the significant change in Transmission owners permitted income, driven by investment to facilitate connection of transmission connected renewable generation is compounding the effect on consumers. **The rising Triad charging signal will lead to even more Triad management being economic, including behind the meter generation and demand reduction, leading to a further increase in the charging signal that is recovered over even fewer customers.**

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?

<b>Answer 3:</b> We agree with Ofgem's interpretation of the applicable CUSC objectives.
<b>Question 4:</b> Do you agree with our assessment against the applicable CUSC objectives and statutory duties? Please provide evidence for any differing views.
<p><b>Answer 4:</b> In CUSC objective (a) Facilitating Competition, the proposal is better for 100MW+ distribution and all transmission connected generation and worse for sub 100MW generation. However, we believe that <b>Ofgem also need to factor in the complex and different connection regimes associated with each to establish if there is a distortion in the market.</b></p> <p>In CUSC objective (b) Cost-Reflective charging. Users who benefit from the network should face charges that broadly reflect the costs they impose and when payments are made to the network users through negative charges these should reflect the benefit that the system gets from those network users. 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. <b>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 it should be considering.</b></p>
<b>Question 5:</b> In our assessment against the objectives, do you believe there are any relevant assessments we have not taken into account?
<b>Answer 5:</b> We refer to our answer to question 4. We believe that Ofgem's assessment is incomplete and it has identified a larger issue with cost reflectivity that it isn't taking account of.
<b>Question 6:</b> 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?
<b>Answer 6:</b> 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.
<b>Question 7:</b> Do you agree with our assessment that the value of the avoided GSP investment cost best facilitates the applicable CUSC objectives?
<b>Answer 7:</b> 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.
<b>Question 8:</b> Do you agree with our assessment of the impacts on security of supply? Please provide evidence for provided views.
<p><b>Answer 8:</b> Ofgem's assessment of security of supply considerations detailed in 4.83 to 4.87 is lacking detail and is incomplete for the following reasons;</p> <ol style="list-style-type: none"> <li>1. 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; this <b>statement isn't backed up by any assessment.</b></li> <li>2. 4.85 identifies that based on this decision, some operators will leave the market. <b>We believe that the impact of this should have been subjected to a detailed Impact</b></li> </ol>

<p><b>Assessment as investors who have recently invested in EG leaving the market so quickly has major ramifications for ongoing investor confidence.</b></p> <p>3.</p>
<p><b>Question 9:</b> 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.</p>
<p><b>Answer 9:</b> Small EG locates on the LV, 11kV and 33kV networks and this has brought additional benefits to these distribution systems. The deeper connections have resulted in small EG funding increased security of supply through more robust networks that consumers benefit from. An example of this is the North West Grudie project in the North of Scotland. The existing 33kV and 11kV networks were single circuit non-interconnectable as the area is exempt from security of supply standards due to the remoteness. It wasn't economic for the existing customer base to fund compliant networks. Over 30 small scale EG developers connecting in the area have triggered and paid for through the deep connection charging methodology a major reinforcement that has delivered a robust network that benefits the existing demand customers.</p>
<p><b>Question 10:</b> Is there other evidence that payment above avoided GSP/generation residual would better facilitate the applicable objectives?</p>
<p><b>Answer 10:</b> As stated previously, we believe that a holistic review of distribution and transmission network charging regimes is required to reflect the different energy system we have today.</p>
<p><b>Question 11:</b> Do you believe you have a legitimate expectation or contractual right for the continuation of TDR payments? If so, please provide evidence.</p>
<p><b>Answer 11:</b> Regulatory and political stability is key to maintaining investor confidence. This reduces investment risks and ultimately cost to consumers. Investors understand that regimes will change and there are always risks. Hence the question is not one of expectation of payments, it is an expectation of a stable regime that considers changes in a fair and logical manner backed up by full impact assessments. Ofgem's approach is out of line with this and will damage investor confidence.</p>
<p><b>Question 12:</b> Do you agree with our assessment of the distributional issues?</p>
<p><b>Answer 12:</b> We agree with the significant impacts in Ofgem's assessment. The issue of behind the meter generation is identified and Ofgem propose to deal with this as a priority measure in the TCR. However, this highlights a more fundamental issue with the price reflectivity of TDR and the different treatment of various approaches to Triad management. <b>This reinforces our view that Ofgem needs to consider a holistic view of network charging rather than the inefficient piecemeal approach that it is undertaking that will result in unintended consequences and introduce further anomalies.</b></p>
<p><b>Question 13:</b> Are there any sectors that we may have overlooked?</p>
<p><b>Answer 13:</b> It is not clear that the impacts identified in the distributional issues have flowed through into the impact assessment and costs on consumers.</p>

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

**Answer 14:** As stated previously we believe that Ofgem's overall assessment is fundamentally flawed, and hence the modeling approach must be considered in this light.

**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:** As stated in answers 4-7, we believe that Ofgem's analysis is incomplete against the applicable CUSC objectives.

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

**Answer 18:** Given the fundamental issues that this consultation raises and does not adequately deal with, we believe that Ofgem should delay implementation and undertake a TCR as a matter of urgency.