



Embedded generation charging arrangements

Northern Powergrid's response to Ofgem's minded to decision and draft Impact Assessment of industry's proposals (CMP264 and CMP265) to change electricity transmission charging arrangements for Embedded Generators

KEY POINTS

As patterns of network usage change and new technologies are introduced, it is important that energy policy keeps pace. The issue of charging for generators is a growing one and needs to be addressed and is an integral part of Ofgem's 'Targeted Charging Review' (TCR).

- The importance of the transmission and distribution network in delivering energy to people's homes and businesses 24/7 needs to be recognised. The networks are an essential part of a chain which ensures security of supply, including through interconnection with Europe.
- Northern Powergrid recognises the market concerns outlined - smaller embedded generators (EG) connected to the distribution network can secure benefits from triad avoidance that are not available to larger distribution- and transmission-connected generation.
- We agree that a significant market distortion exists and this should be addressed as a matter of priority, creating a level playing field for all generators and removing the risk of inefficient network development.
- We welcome the detailed impact assessment of the two Connection and Use of System Code (CUSC) modification proposals (CMP264 and CMP265) along with the 23 workgroup alternatives that were put forward. This has highlighted the level of concern across the industry and the need to address these issues quickly and efficiently.
- We therefore agree that the phased implementation from 2018 to 2020 strikes the right short-term balance ahead of the wider TCR which amongst other things will look into the residual charges in transmission and distribution; which is another area of concern for transmission charging and is broadly used to recover sunk or fixed costs.
- We consider the TCR is necessary to ensure the industry as a whole moves towards a more level playing field for all parties connecting to either the distribution or the transmission networks.

Detailed response to Ofgem's minded to decision and draft Impact Assessment of industry's proposals (CMP264 and CMP265)

1. We have focussed our response on the more general questions and principles that have been established, we have therefore not responded specifically to each question in detail.
2. As we stated in our response dated 23 September 2016 to your open letter of 29 July 2016, we agree that, based on the evidence put forward, finding a solution to the transmission network use of system (TNUoS) demand residual charges issue should be an area of focus for Ofgem as a significant distortion is occurring and it is likely to increase in coming years. **We therefore agree with questions 1 (problem definition) and 2 (the problem needs addressing) as posed in the consultation document.**
3. We welcome the detailed impact assessment of the two CUSC modification proposals (CMP264¹ and CMP265²) along with the 23 workgroup alternatives that were put forward. This has highlighted the level of concern across the industry and the need to address these issues quickly and efficiently.
4. We were, and still are particularly concerned that the removal of the embedded benefits may result in a stronger case for investors to build generation 'behind the meter', or on a private wire network, potentially creating a further market distortion and inefficient system. We have already seen a significant and growing interest in this type of arrangement. We therefore welcome the recently issued TCR consultation which amongst other things will look into the residual charges at transmission and distribution; which is another area of concern for transmission charging where it is broadly used to recover sunk or fixed costs. We consider the TCR is necessary to ensure the industry as a whole move towards a more level playing field for all parties connecting to either the distribution or the transmission networks.
5. By reducing some of these distortions now, this will contribute to the more holistic review of some of the wider distortions in order to encourage the efficient development of the energy system. We therefore support the proposal to introduce a phased implementation of these new arrangements over three years from 2018 to 2020 as this will help to prevent further escalation of the level of demand residual payments.

¹ CMP264 'Embedded Generation TRIAD avoidance' seeks to make changes to TNUoS billing arrangements to remove the ability for new EG to receive the embedded benefit from TRIAD avoidance.

² CMP265 'Gross charging of TNUoS for HH demand where embedded generation is in Capacity Market' specifically seeks to address the issue that half hourly metered (HH) demand for TNUoS purposes is currently charged net of embedded generation.

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6. **The phasing of the implementation and the extent to which grandfathering is or is not appropriate should be determined by reference to answers received to question 11 in the consultation – i.e. ‘do you believe you have a legitimate expectation or contractual right for the continuation of TDR payments’.** As we indicated in our previous consultation response, this question of legitimate expectation is not only pertinent to the final determination by Ofgem of this policy outcome but also the level of investor confidence more widely. Although less relevant to CUSC objectives, it is important that investor confidence in the regulatory regime is maintained.
 7. We share Ofgem’s concerns on whether other elements of the network connections and charging regimes are having a significant impact on the level playing field between different types of generation and demand including storage and other forms of flexibility. Again this is a topic that is being considered in the TCR and the wider review of both of the Distribution Use of System (DUoS) charging methodologies Common Distribution Charging Methodology (CDCM) and Extra-High Voltage Distribution Charging Methodology (EDCM). We look forward to hearing Ofgem’s views with respect to the barriers. Ultimately, it is a matter for policy makers to work with companies to ensure that the detailed arrangements are calibrated to deliver on national energy policy.
 8. We look forward to reading Ofgem’s next steps in response to the joint call for evidence with BEIS on a route map to a Smart, Flexible Energy System. We are already participating in the transition to more actively-managed networks to provide system support and network operation and exploring the potential for distribution network operators (DNOs) to add more value and transition to the role of a distribution system operator (DSO).
 9. We also keenly anticipate the work in relation to the potential options for ensuring charging for storage is addressed to ensure we take advantage of the significant developments of technology in this area and the benefits this offers for distribution networks and other parts of the energy system. However, care needs to be taken to ensure that there is a level playing field for all parties and all technologies to compete with other forms of flexibility as this should help to secure a number of policy objectives.
 10. In summary, we believe that the approach being proposed, whilst it may impact some parties more than others, is a positive step in reducing the distortions and likely provides a reasonable period of time for parties to understand and react accordingly. The impact of these changes will run parallel with the TCR which will be considering the other benefits received by smaller EG alongside the wider question of how residual/cost recovery charges should be levied and other matters.
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