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Ofgem  
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**BY LETTER AND EMAIL**

Dear Ms Warburton

We are writing to set out our views on Ofgem's minded to decision and draft Impact Assessment of the industry's proposals to change electricity transmission charging arrangements for embedded generators. Whilst we understand that in a changing landscape, charging arrangements for the transmission network must be reviewed, we are concerned that the process by which Ofgem has reached its minded to decision is deeply flawed.

FCC Environment (UK) Ltd operates 5 Energy from Waste sites and has one in construction that rely heavily upon the transmission charging arrangements for embedded generators and this makes up a significant element of its revenue stream which underpins the long-term financing of these projects, typically over 25 years. Removal would significantly undermine the financial standing of these renewable generators especially after the sudden removal of LEC's in 2015, the already sustained low electricity price within the market as well as not receiving any additional subsidy mechanisms to support them commercially.

**We are concerned that Ofgem has not undertaken a fair, systematic and comprehensive review of the charging arrangements for embedded generators, and therefore should delay its decision until such a review can be carried out.**

Poor governance

Firstly, there is a fundamental lack of objectiveness in the Connection and Use of System Code (CUSC) industry process. Six of the nine members of the panel represented the interests of transmission generation, whereas distributed generation received no representation at all. This runs contrary to the Government's aim of ensuring the energy market functions fairly for all consumers when the big energy companies may be using the process to strengthen their market position.

On top of this, the consumer representative abstained from voting on the grounds that there was insufficient time available to fully review the impact assessment. The consumer representative's role is vital, given that the changes will ultimately impact consumers for better or worse. Ofgem should have ensured that the consumer representative was equipped to make an informed decision by explaining its impact assessment in a clear and accessible manner.

**Changes should therefore not be made until the Modifications can be reviewed by an impartial and informed panel.**

#### Rash decision

As touched upon above, the review process has been far too rushed to ensure the decision reached is the right one. The CUSC Modifications industry consultation involved 5,300 pages of information with just ten days given to submit a response. As discussed previously, when it came to the CUSC panel vote, the consumer representative did not have enough time to understand the documents.

The haste with which the review has been conducted is reflected in the patchy analysis. Costs to consumers are not adequately estimated, and there is no analysis of the impact on winter supply margin.

Furthermore, the decision and implementation period are premature to the Government's Industrial Strategy. Network charging is surely a key element of delivering affordable energy and clean growth, one of the pillars identified in the Industrial Strategy green paper. Despite this, Ofgem is making drastic and irreversible changes to the charging regime before the Government has commissioned a review, as announced in the green paper, which will look into how markets and networks can operate as efficiently as possible in a low-carbon system.

**The final decision should therefore be delayed until the impacts can be assessed more thoroughly and in conjunction with other significant changes to energy markets and networks.**

#### Insufficient analysis

Not only are there holes in Ofgem's analysis of the impact on energy and consumers, but there is a total oversight of how the changes would affect different industries generating energy from different sources of fuel.

We estimate the proposed reduction in embedded benefits will cost the waste and resource industry £100 million. Much of this cost will ultimately be borne by local authorities who are already struggling to maintain their services with substantially shrunken resources. Ofgem has not taken this impact into account.

It is also unfair to say that all embedded generation has a large financial incentive to locate on the distribution system, despite it possibly not being the most efficient place to locate (p.14). The definition of 'efficient' for energy generated from waste is very different from other forms of power generation, since by necessity it is located close to waste generation and thereby energy demand as well. The cuts to embedded benefits will have a considerable impact on the industry, which has no choice but to locate where it does. In doing so, the proposals are likely to circumvent the Government's and the industry's waste and resource aims of diverting residual and organic waste from landfill into energy recovery by undermining current and future investment.

**Ofgem should therefore undertake analysis of the wider implications of its proposals such as those on local authorities and waste management.**

#### Conclusion

FCC Environment is concerned that the review process is biased against distributed generation, that it has been too rushed to ensure it is the right decision, and that adverse implications for certain sectors and their customers have not been fully understood or recognised.

We appreciate that undertaking a Significant Code Review (SCR) would require a longer time scale, but looking at TNUoS payments in isolation risks unintended consequences for the market. **Given that the changes could have serious repercussions and may eventually deviate from the Government's nascent Industrial Strategy, we strongly urge Ofgem to reconsider undertaking a SCR.** A longer time scale would allow Ofgem to carry out a robust, systematic impact assessment that takes into account the nuances involved in making changes, and can be reviewed independently.

We would welcome the opportunity to discuss these issues further with you and look forward to your response.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Brown'.

Steve Brown  
Operations Director