

Fred.Olsen Renewables Ltd
64-65 Vincent Square
London
SW1P 2NU

18th April 2017

Andrew Self
Head of Electricity Network Charging
OFGEM
9 Millbank,
London,
SW1P 3GE

Stakeholders@ofgem.gov.uk
electricitynetworkcharging@ofgem.gov.uk

Dear Andrew,

Embedded Benefits: Consultation on CMP264 and CMP265 minded to decision

Fred.Olsen Renewables (FOR) is one of the largest onshore independent/non-utility windfarm developers in the UK having made its first investment in 1996 and now with seven commercial scale windfarms in the UK and this will grow to eight by 2018. FOR have a mix of embedded and transmission connected projects both in operation and development pipeline. FOR also has onshore wind farms in Norway and Sweden. FOR is a whole lifecycle developer, developing owning and operating wind farms.

As an independent windfarm developer, and without a dedicated regulatory team, we have been supported by specialist consultants Cornwall Insight in this consultation response. This has been carried out in conjunction with other independent renewable generators. A full draft of the supporting report will be provided as an attachment to this submission and we would strongly urge you to take the time to review the great level of detail contained within this report.

However, in summary :-

- The benefits of implementing CMP264 & 265, and the greatest assessed reduction in the triad demand residual (TDR), presented by Ofgem are greatly overstated.
- Notably no account is taken by Ofgem of the impact on increased cost of capital for generation developers, and
- Several increased costs arising from implementation have been omitted from the assessment or are understated.
- These cost increases arise in our assessment because:
 - embedded generators that remain on the system will seek to replace lost revenues in other markets, increasing the costs in these markets
 - more new embedded projects assumed to be available from recent Capacity Market (CM) auctions will not proceed, adversely impacting on security of supply, and there will under any scenario be a much less orderly process than that assumed for new CCGTs coming forward filling the capacity gap.

As a result wholesale prices, CM costs and balancing costs will all be significantly higher than Ofgem has estimated. Overall over the modelled period these factors materially reduce the assessed consumer benefit. There is in addition a number of risks of unintended consequences that Ofgem does not take into account that lead us to conclude that the proposal to implement WACM4 is unsound. If more realistic assumptions are made,

WACM7 emerges as superior to WACM4 in terms of consumer betterment and also gives rise to fewer unintended consequences.

In terms of process:

- This is a rushed code change process that has given little time for participants to fully engage. Ofgem has stated¹ that it will apply a three-month consultation period for matters that have a wide significance and impact, and the CMP264/5 process clearly meets this classification.
- Ofgem's approach is contradictory to its policy. The deadline has not been extended meaningfully despite impact assessment (IA) corrections being published on 15 March, and
- There has been insufficient time for effective analysis by smaller generators without the benefit of large regulatory teams.

Other key points we make are:

- Capping the TDR at recent levels immediately delivers a large part of the claimed benefits without the risk of the unintended consequences we identify associated with WACM4
- Decisions on enduring rule changes should only be made after conclusion of various other network charging reviews already underway, including the recently announced Targeted Charging Review (TCR). It is possible, indeed likely, that the TCR could result in competing or conflicting changes involving (i) different charges for firm/non-firm connection; (ii) capacity v energy charges; (iii) recovery of fixed/sunk costs; (iv) greater locational differentials; and local balancing charges replacing transmission charges over time recognising the contribution embedded generation makes to security of supply
- Future TNUoS levels will also be dependent on Ofgem's price control policies, which should consider how savings to the demand residual could be made, for instance, by decommissioning redundant assets
- Against this background WACM7 offers a much more appropriate and prudent holding option. This would cap the TDR, enable more robust analysis to be conducted and meaningful consultation to take place, and enable interactions with the on-going reviews to be more closely established
- If Ofgem holds course and maintains its decision in favour of WACM4, the solution should be modified to include grandfathering, and
- Ofgem has also published international analysis as part of its proposals to conduct the TCR, but only after the consultation on the minded to decision was underway. This shows unambiguously the difficulty of addressing distortions in fixed/sunk cost recovery in a fair and proportionate way, and demonstrates the need for a managed transition over several years.

If you have any questions please do not hesitate to contact me.

Yours sincerely,



Graeme Cooper
Executive Director
Fred. Olsen Renewables Ltd

Encs. Cornwall Insight - Critique of Ofgem's minded to decision on CMP264 and 265
cc. Gareth Swales Commercial Director Fred. Olsen Renewables