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Minded to decision and draft Impact Assessment of industry's proposals (CMP264 and CMP265) to change electricity transmission charging arrangements for Embedded Generators – RWE Response

Dear Andrew,

RWE welcomes the opportunity to respond to the Ofgem consultation on the “Minded to decision and draft Impact Assessment of industry's proposals (CMP264 and CMP265) to change electricity transmission charging arrangements for Embedded Generators” (the Consultation Document) published on 1st March 2017. We are responding on behalf of RWE Supply and Trading GmbH and RWE Generation UK plc. This is a non-confidential response.

We support Ofgem's minded to decision to implement WACM4. This alternative is a non-discriminatory and more cost reflective approach towards the treatment of the demand residual while providing transitional arrangements that will help market participants to manage the change. We also support the fact that Ofgem have ruled out grandfathering. We believe that grandfathering of known risks would set a difficult precedent in relation to all future changes to industry codes. In addition, grandfathering would add to complexity and investor uncertainty since it would be no longer certain which areas have grandfathering and which do not - making future investment decisions even harder. Excluding grandfathering ensures industry players know the risks that they face.

The charging arrangements form part of the CUSC and are therefore subject to a change process. As such they are part of the regulatory landscape and a well understood regulatory risk for all industry players. Investors have to take a view on future development of costs and also any change in costs (for either generators or customers) in making their decisions.

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The current regime results in significant and material distortion of capacity and energy markets and is clearly unsustainable. While we fully support the development of a flexible energy system, this should be on the basis of a level playing field for all market participants and not built on non-cost reflective charges.

We note that Ofgem are considering a Targeted Charging Review. Whilst this is welcome we hope that existing CUSC modifications, in particular CMP271 will remain in the CUSC process. We believe that CMP271 provides a framework for developing a robust and enduring cost reflective solution to the demand residual transmission charging arrangements. We expect that the CMP271 workgroup will take into account Ofgem's views on avoided costs as set out in the Consultation Document in developing the proposal.

Our response to the specific question in the consultation document is included in Annex 1. If you have any comments or wish to discuss the issues raised in this letter then please do not hesitate to contact me.

Yours faithfully

By email

Bill Reed
Market Development Manager.

Annex 1: RWE Response to the specific questions

Chapter 2

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?

We agree with the problem definition set out in the consultation document. There is a significant and material issue associated with the current treatment of the demand residual in the TNUoS transmission charging methodology and in particular the incentive properties associated with payments to sub-100MW embedded generation. These payments have a clear impact in the energy and capacity markets, and may result in both inefficient dispatch decisions and capacity clearing prices.

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

We agree that that rising TDR payments to smaller EG is a problem which needs to be addressed.

Chapter 4

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

We agree with Ofgem’s interpretation of the applicable CUSC Objectives. In particular we support non-discrimination in the relevant arrangements and the principal of avoided costs in assessing any potential embedded benefits.

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

We agree with Ofgem’s assessment against the applicable CUSC objective and statutory duties. We recognise the issues that have been taken into account in considering the phased implementation. Such transitional arrangements will enable parties to better take into account the potential issues that arise through implementation.

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

We do not believe that there are any relevant assessments that Ofgem have not taken into 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?

We agree with Ofgem’s 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. We note that Ofgem have stated in paragraph 4.22 that *“it has not been suggested to us that any party has a contractual right or legally enforceable expectation that it should continue to receive TDR payments based on the current methodology over any particular period”*. We consider

that the charging arrangements form part of the regulatory regime, and that the regime is subject to change.

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

We agree that the value of avoided GSP investment costs best facilitates the applicable CUSC objectives. Avoided GSP costs have been objectively justified and can form a basis for an embedded benefit. However, we believe that this value should be kept under review and updated from time to time.

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

We agree with Ofgem's assessment of the potential impacts of the impacts on security of supply. Given the scale and extent of the potential distortion in the energy and capacity market, the continuation of the current embedded benefit could lead to inefficient new entry and closure of transmission connected generation.

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.

We have no evidence to show other costs savings in relation to the TDR which small EG drive in comparison to larger (over 100MW) EG on the distribution system.

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

We do not have any evidence that payment above avoided GSP/generation residual would better facilitate the applicable objectives.

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

We do not believe that there is a legitimate expectation or contractual right in relation to the TDR for the continuation of TDR payments to embedded generators. The charging arrangements form part of the CUSC and as such is subject to an industry change process. Therefore market participants are fully aware that transmission charges are subject to change and all investors must take a view on the risk of such changes. In addition, a potential change in this area was well signposted by Ofgem and Government in various communications to the industry during 2016 and 2017.

Chapter 5

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

We welcome Ofgem's analysis and we agree with the assessment of distributional issues.

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

We do not believe that there are any sectors that may have been overlooked by Ofgem.

Chapter 6

Question 14: Do you agree with our modelling approach?

We agree with the modelling approach, noting that with such a complex issue it is important to recognise that a number of simplifying assumptions have been made.

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

We agree with the background assumptions and that FES data is an appropriate approximation for status quo.

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

We agree that the assessment is appropriate for the various CMP265 and CMP265 WACMs

Chapter 7

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

We recognise the reasons for Ofgem's conclusion that WACM4 best facilitates the CUSC objectives give the options in front of Ofgem.

We note that Ofgem are considering a Targeted Charging Review to consider an enduring solution including addressing "behind the meter" issues. While we welcome such a review, we believe that CUSC Modification Proposal CMP271 should form the basis for a comprehensive review of Demand TNUoS charging. CMP271 includes within its scope of work the appropriate cost reflective charging arrangements and allocation of the demand residual. We would suggest that work should continue under CMP271 to develop an enduring arrangement for demand transmission charging.

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

We believe that an implementation date of April 2018 best facilitates the applicable CUSC objectives. This implementation date will result in commercial and contractual changes for Suppliers and market participants.