

Andrew Self
Head of Electricity Network Charging
Energy Systems
Ofgem
9 Millbank
LONDON
SW1P 3GE

10 April 2017

Dear Andrew

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

Thank you for the opportunity to respond to the above Notice. This response is on behalf of UK Power Networks' three licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc.

We support this change which, as well as being more cost reflective, will help reduce a distortion between the transmission and distribution charging methodologies.

We welcome the staged implementation as it will enable us to observe and understand the effect that any increases in net demand will have on our ability to meet our obligations to maintain security of supply.

In developing or modifying charging methodologies it is important that the outcome establishes charges that are as cost reflective as is efficiently possible, and that any charging distortions between tariffs or charging boundaries are minimised. We support the principle that any residual charge applied to demand customers should not be available as a credit payable to generation customers. This is the charging approach that is used for distribution charges, where the credits provided to generators do not contain any residual charge (scaling) allocated to demand charges. This approach was agreed when the distribution charging methodologies were developed, on the basis that generation does not reduce any of the costs that are recovered in the residual element of the charge. This change, as well as being more cost reflective, will help reduce a distortion between the transmission and distribution charging methodologies.

There is likely to be a period of uncertainty, following implementation, as to whether some generators will decide that it is no longer viable to generate at times of peak demand, and this uncertainty is resulting in concerns that available generation may affect security of supply. We believe that the correct way to address any potential reduction in system margin is through suppliers, generators and DER participating in the wholesale market, and not through any charging anomalies. As some of the uncertainty will be caused by generation that is behind the meter, we may not know how this change will affect the peak loads on the distribution network until we are experiencing typical Triad demand periods on our distribution network. In this respect we welcome

the staged implementation as it will enable us to understand, through the annual progression, the effect that any increases in net demand will have on our ability to meet our obligations to maintain security of supply. Lower payments to these generators will also make it more economic for distribution system operators to procure security services to support security of supply if necessary.

We look forward to hearing from you in respect of the above. If you have any questions, please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'James', followed by a stylized flourish.

James Hope
Head of Regulation & Regulatory Finance
UK Power Networks

Copy: Rob Friel, Manager, Regulatory Strategy & Optimisation Manager, UK Power Networks
Paul Measday, Regulatory Reporting & Compliance Manager, UK Power Networks