

## Annex A

### REA Briefing on Embedded Benefits Review, Summer 2016

The REA represents a wide variety of organisations, including generators, project developers, fuel and power suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are around 700 corporate members of the REA, making it the largest renewable energy trade association in the UK.

#### Embedded Benefits

- The Embedded Benefit (EB) is accrued to distribution-connected generators and large users of electricity ('demand'), in recognition that they do not use the transmission network and therefore should not pay the charges for use of this system. The benefit partly arises as a result of the arrangements between National Grid and the largest supply companies for paying for the transmission network – the TRIAD payments. There are numerous elements of the EB.
- The EB has been re-examined as a policy several times in the past few years – on each occasion National Grid have realised the system cannot be changed in isolation, and/or is a fair charging instrument as currently constituted following REA & industry campaigning. Most recently these reviews led to a proposal to re-examine charges at Grid Supply Points (GSPs) which are net exporters to the transmission network (ie those parts of the distribution network which do use the transmission grid due to high levels of generation, currently only the case in around 10% of the GSPs).
- Our concern with this review is that it derived from DECC's (as was) desire to incentivise more new-build gas plants and reduce the amount of diesel generators in the Capacity Market, both of which are policy intents that could be best achieved using other policy levers. Changes to embedded benefits affects 18GW of generation and a large amount of demand-side sites such as manufacturers, hospitals and colleges.
- The latest modelling shows that a large manufacturing site (eg energy intensive industries) could stand to lose around millions of pounds per year as a result of EBs being removed – we believe this aspect is as important as any impact on the generation side, to 'UK Plc' and indicates the lack of a joined up approach to energy when other measures are being taken with the stated aim of reducing costs for such companies. Driving up the cost of the Capacity Market in order to make new-build CCGT plants viable in the auction, as this change aims to do, will also increase net consumer bills.
- There have been two rule changes proposed in a parallel process (the internal industry governance CUSC codes). Scottish Power has laid a proposal to suspend embedded benefits for all new distribution network connectees from spring next year ([CMP 264](#)). EDF Energy has laid a proposal ([CMP 265](#))

meanwhile, which would end the embedded benefit purely for connectees with Capacity Market agreements. There are rumours of CMP264 being extended to seek a reduction in the EB paid to existing plants as well.

- Ofgem have issued an [Open Letter](#) outlining their views and stating their intention to progress one of the CUSC modifications as the first step in any changes.
- The Parliamentary Energy and Climate Change Committee have been contacted and requested to raise the issue of the EB review, senior Ofgem partners briefed and a meeting set up with Ofgem Chairman.

#### Industry Concerns

- As well as adversely impacting 18 GW of distribution connected generation, any removal of embedded benefits will hurt UK manufacturers – just when these companies face serious pressures and doubts over their viability (for example energy intensive operations)
- Any removal of the EB would also negatively hit other large electricity users such as hospitals and colleges. This adds to the net impact to the public of any change, which could see higher grid reinforcement costs as a whole
- Analysis by Cornwall Energy shows removing the EB could lead to 2GW less overall UK energy generation capacity by making new projects potentially unviable
- It is a direct threat to the 'Local supply' agenda and moves to increase system flexibility by building more decentralised energy and for example the Licence Lite model of supply
- Despite increasing costs to consumers, Cornwall Energy analysis shows that removing EBs would simply lead to existing gas plants receiving new CM contracts in the next auction, rather than new-build gas plants, as hoped for. There are other independent models which back up this modelling.
- The much vaunted 'Flexibility' agenda is threatened by this move as storage devices will be adversely impacted as well as flexible embedded plant.

#### Industry Asks

- We believe Ofgem should commit to a full, holistic review of grid charges, not just one element (ie the embedded benefit) – the various changes in the industry necessitate a full review, as does National Grid's current review of grid charges.
- This must be of an appropriate timescale to be well thought through – National Grid's review has a 2 year timescale for example. Ofgem should not conduct a rushed review just in order to fit with the Capacity Market timeline (ie before pre-qualification opens in the autumn).
- Set out a timeline for this full review in the next month to provide clarity to investors.
- We completely accept that industry must pay for the networks they use, but these charging mechanisms must be cost reflective and fair, not based on political objectives or short term needs (ie to change the bidding profile in the next CM auction).
- We accept the size of the Embedded Benefit may reduce in monetary terms, but it should properly reflect and match the TRIAD avoidance costs offset.
- Industry have a way forward for the embedded benefit, which could include reducing payments by assigning a lower value to some elements and changing the charging for the 'Capacity Market Supplier Charge' element, which is essentially a 'double charge' as it operates on the same principle as the TRIAD system.

