

Estover Response to Ofgem Targeted Charging Review consultation

Estover is a renewable energy development and manager specialising in powering industrial sites using biomass CHP plants.

Local businesses powered by our plants employ over 3,500 people in rural areas: Thanet, Scotland and North East England. All three are embedded generators; powering a distillery, pharmaceutical processing clusters, industrial manufacturing and research labs.

Since 2010 the company has developed and financed £375m of biomass CHP plants.

The first of Estover's plants, Speyside CHP (14MWe) commissioned in March 2016; the second, Cramlington CHP (c.28MWe) will commission in Q2/Q3 2017; the third, Sandwich CHP (c.28MWe) will commission in Q2 2018.

Estover welcomes the opportunity to respond to Ofgem's '*Targeted Charging Review: a consultation*'

Summary

We agree that the potential for network 'sunk costs' to fall increasingly on groups of consumers who are less able to take action than others is something that Ofgem should address.

However, we stand with the ADE's official response to the consultation:

- We disagree that Ofgem's work represents a holistic charging review that has been a long-standing recommendation for industry;
- We disagree that addressing the recovery residual charges should be the priority focus on Ofgem's network charging review; and,
- We disagree that residual charges are the same as the 'sunk costs' of the network.

Ofgem in its consultation has already so sharply focussed the SCR that it risks not being able to deliver a more holistic approach to network charging reform.

Instead of determining in advance the content and scope of the TCR, and therefore the SCR, we would instead propose that the TCR should, led by the CCG, determine what areas need to be reviewed, and their relative priorities. The SCR should then be set up to deliver the underlying work in tandem. Such an approach would ensure that Ofgem's change process delivers holistic reform of the charging regime.

Ofgem's current approach appears instead to aim on the recovery of the residual charge, which is important but not urgent, and a few smaller elements of the charging regime for distributed generation with a particular view of removing existing value for distributed generators, while still not undertaking the hard analytical work on net demand reduction's value to consumer missed in the rushed CMP264/265 process.

Estover has particular concerns with the proposals for reviewing residual charges.

Private wire networks that use dispatchable power are able to provide significant additional benefits to consumers than those using intermittent renewable power, by delivering low cost, reliable generation and reducing demand on the public distribution and transmission networks.

If Ofgem insist on moving from a metered residual charge to a universal capacity charge, we propose that (i) private wire networks with dispatchable power should be classed differently to networks with intermittent power and (ii) private wire networks that use the distribution network less than a certain proportion of a given year, incur a lower charge.

Furthermore, distribution network connections used as temporary backup should be classed in this way (without any reduction in service by the DNOs) and not subject to any (currently metered) residual charges unless they use that connection during an emergency.

Question responses:

We agree with the Association for Decentralised Energy's (the ADE) official response.

We want to place particular emphasis on the proposals for reviewing residual charges, in Chapter 3.

Question 3: We are proposing to look at the residual charges in a Significant Code Review. Are there any elements of residual charges that you think should be addressed more urgently? Please say why.

Private wire networks that use dispatchable power are able to provide significant additional benefits to consumers than those using intermittent renewable power, by delivering low cost, local and/or renewable generation consistently and cheaply and reducing demand on the public distribution and transmission networks.

Ofgem's example

The private wire network example in the Ofgem consultation report is a conventional 'behind-the-meter' set up, whereby a (typically renewable) generating unit, synchronised with the grid, reduces a consumers consumption of distribution network supplied power without removing it's reliance on the distribution network. As the power is highly intermittent, the private wire network remains as dependant on the distribution network as a consumer would be without behind-the-meter generation.

Other types of private wire network

Private wire networks using dispatchable power (such as a biomass or gas CHP generator) are different, and have not been represented in Ofgem's consultation. A dispatchable generating unit on a private wire network typically produces enough power for all private wire consumers (and may also export). The distribution network is used as a seamless emergency backup and is used infrequently (as apposed to the intermittent renewable generator used in Ofgem's example).

Large private wire networks

Further to the above, large private wire networks that supply power from a dispatchable generator to multiple consumers will require those consumers to be disconnected from their existing distribution network supply points and use the import/export connection of the generator for seamless backup supply. This is to prevent major network synchronisation and fault issues when two parts of a distribution network become connected. These private wire consumers will however, keep their existing connection to the distribution as a failsafe, during periods of unforeseen downtime on the private wire network and to prevent them from becoming stranded from the distribution network in the long term.

Why the status quo works

Consumers on a large private wire network already pay a residual 'capacity' charge to the DNO to keep their direct connection onto the distribution network available should they need it. They pay

other metered residual charges should they make use of that supply. The private wire supplier also pays a capacity charge for the same capacity on its import/export connection point. This is used as a seamless backup and attracts metered residual charges in the first instance. Effectively the DNO is paid capacity charges twice for the same capacity, and once for the metered distribution costs. This is considered fair and reasonable - consumers should pay a 'rent' to the DNO to maintain their connection and a 'usage charge' when they (or the private wire supplier) make use of the public network.

Why Ofgem's suggestion of a universal capacity charge is problematic

Ofgem seems to be leaning towards a capacity charge mechanism whereby the metered 'usage charge' element of the residual costs of the public network will be converted to a capacity charge (i.e. a rent). This is irrespective of what a consumer plans to use the public network for; whether as primary supply or as a seamless back up or a failsafe on a private wire network. If Ofgem does this it will result in disproportionate penalties to some private wire networks over others:

- Private wire networks with dispatchable generators use the distribution network less than intermittent generators as a seamless back up supply. Converting residual usage charges to a rent will impose the same charges on both without any regard to actual usage (as apposed to the current charging mechanism that does).
- private wire networks with large consumers that must be disconnected from the distribution network, but maintain their distribution network connections will be forced to pay for a network they do not intend to use on a regular basis. DNO's will be paid twice for all residual costs of a network - once for the private wire seamless back up connection (see point one above) and second for the consumers failsafe connection. This is considered punitive and disproportionate to actual usage.

If Ofgem insist on moving from a metered residual charge to a universal capacity charge, we propose that (i) private wire networks with dispatchable power should be classed differently to networks with intermittent power and (ii) private wire networks that use the distribution network less than a certain proportion of a given year, incur a lower charge.

Furthermore, distribution network connections used as temporary backup should be classed in this way (without any reduction in service by the DNOs) and not subject to any (currently metered) residual charges unless they use that connection during an emergency.

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