CIP

COPENHAGEN INFRASTRUCTURE PARTNERS

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By email frances.warburton@ofgem.gov.uk

Dear Frances

Charging arrangements for embedded generation

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I am writing in response to your Open Letter on the above matter. This letter is sent by Copenhagen Infrastructure Partners (CIP), a fund management company founded in 2012, managing a growing portfolio of funds of currently approx. EUR 2.4 bn. from primarily Scandinavian pension funds and institutional investors.

At CIP we invest globally in energy related infrastructure assets and have in the recent years been a big investor in energy assets in the UK, including investments in the development, construction and operation of embedded renewable projects in the UK, including biomass plants at Brigg (Lincolnshire), Snetterton (Norfolk), Templeborough (Yorkshire) and Sandwich (Kent). The four biomass plants constitute an investment of approximately £640m and contribute not only to securing renewable energy generation in the UK, but also contribute to hundreds of local jobs.

We are a long term investor and value stable markets with low political and regulatory risk. We consider the UK to be a stable investment environment, and this is of paramount importance for our investments in the UK.

In light of this light, we are concerned by the content of your open letter and believe that changes to the charging arrangements for embedded generation risks further undermining foreign investor confidence in the UK infrastructure and energy assets, already shaken by policy announcements including the unexpected cessation of renewable LECs in 2015 (and recently also the vote to leave the European Union).

There have been a number of detailed reviews into embedded benefits, and we noted the outcome of National Grid's recent review "transmission charging arrangements for embedded generation" which indicated that the only area of remaining concern was in connection with exporting Grid Supply

Points (GSPs.). After such a wide ranging review which has taken evidence from a wide range of sources, it is concerning to see a sudden shift in intensions in this area. These sudden changes are extremely unhelpful when trying to establish a framework for development and long term investment in new energy and infrastructure assets.

We note the economic arguments set out in the Open Letter and references to other studies. However, we do not think that a clear economic case has been made that embedded generators are over-rewarded and note the absence of any independent analysis or data sources for the figures and charts provided. We also question the assertion that "*there seems to be a widespread view in the industry that the current level of the TNUoS demand residual payments, as one element of embedded benefit, is currently higher than is justified*". At CIP we think that the arrangements need to be taken in the round, as focusing on just one element, the Demand Residual, will not necessarily show the whole picture. Developers, generators and other parties respond to a whole range of signals, and embedded generators face additional costs from Distribution Use of System charges and generally have a lower level of security and/or protection from being curtailed by system constraints than their counterparts who are directly connected. Any review needs to take this into account before making changes to a settled system, that has been subject of extensive review over a number of years.

As for consumer costs, terminating a payment currently made to embedded generators (and/or imposing new charges on them) could in the short term have a distributional effect to the benefit of consumers as a class (versus embedded generators as a class). However, this may not be the case in the longer term since reduced participation from embedded generators and/or the need for additional income replacing any lost embedded benefits would ultimately be paid for by consumers. Indeed, even in the medium term it seems a reasonable expectation that capacity market prices would be driven up by removing embedded benefits. This would result in higher prices paid by consumers with greater returns for existing non-embedded generators who benefit from the higher capacity income.

More generally, new investments in UK generation assets are being driven by the specific support regimes. Removal of embedded benefits would not necessarily reduce consumer costs since greater support would be needed to incentivise projects without the contribution from embedded benefits and/or the increased costs of paying for transmission access even if not actually used by the generators concerned. Furthermore, dispatch decisions by supported generators in the ROC or CfD regime will not be affected by the

existence or otherwise of embedded benefits, since the incentive is always there to maximise output.

For existing embedded generators, many will be reliant on the income from embedded benefits to secure their revenue stream and this will have been an integral element of the financial case at the final investment decision. In order not to distort investor confidence, any change should have appropriate grandfathering provisions to protect the integrity of these investments. Alternatively, a significantly delayed implementation should be implemented in order for investors not to regard these changes as arbitrary policy changes increasing regulatory risk considerably.

The Open Letter highlights the need for coordination, noting not only the proposed modifications to the CUSC, potential changes to BSUoS and other embedded benefits, fixed cost allocation and other work on charging at distribution level with the CDCM and EDCM reviews; at transmission level with the National Grid review and at a cross transmission and distribution level with the ENA overseeing several working groups and Energy UK considering network charging arrangements. This level of activity across different codes, working groups and other bodies makes it extremely difficult for all parties, particularly smaller ones, to follow the issues, let alone contribute effectively. If there is a case for amending the charging arrangements for embedded generation, this should only be explored through the Significant Code Review process and we would urge OFGEM not to accept short-term "fixes" as proposed in the two on-going CUSC modifications.

Without a rigorous and foreseeable process being put in place to examine all the issues together, coupled with an appropriate grandfathering scheme or similar, there is real risk of ad-hoc incremental changes further undermining investor confidence which will be to the long term detriment of the consumer and the UK energy sector.

Best regards,

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