The voice of the energy industry

Energy UK
Charles House
5-11 Regent Street
SW1Y 4LR

18th April 2017

Energy Systems
Ofgem
9 Millbank
SW1P 3GE

Dear Andrew,

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

Submitted via email to electricitynetworkcharging@ofgem.gov.uk

We welcome the opportunity to respond to this consultation. Energy UK is the trade association for the GB energy industry with a membership of over 90 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 26 million homes and every business in Britain. Over 619,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing lifelong employment as well as quality apprenticeships and training for those starting their careers. The energy industry adds £83bn to the British economy, equivalent to 5% of GDP, and pays over £6bn in tax annually to HMT.

Given the diversity of our membership, Energy UK's response will focus on areas of agreement or principle and will outline the various positions on the minded to decision.

There are three main views from within Energy UK's membership about CMP 264/265.

- Members who support stabilization of charges pending a review and/or grandfathering. Parties have entered into various investments (including CHP, embedded generation and renewable projects) and taken forward looking commitments (15-year capacity market obligations, renewable CfDs etc.) based on the principle that licence exempt generation embedded in the distribution system is charged for its use of the transmission system as negative demand (historically considered cost reflective). As noted by a number of consultation respondents, changing this principle, without suitable grandfathering or transitional arrangements, will damage projects potentially reducing security of supply and investor confidence, both of which will ultimately result in higher prices for end users.

- Members who support Ofgem's minded to decision. These members believe that an economic case has been made to reduce the TNUoS demand residual element of embedded benefits and that no justification for the current levels had been identified in the Workgroup process. They feel that the locational tariffs derived from National Grid's transport model reflect the marginal benefit (or cost) of transmission network users, including embedded generators. They therefore conclude that enduring tariffs for embedded generators should be much closer in value to the tariffs for transmission connected generators in similar geographical locations, because their respective effects on transmission investment costs are similar. They do not believe that CMP264/5 needs to be put on hold pending a more fundamental targeted review as the defect identified under CMP264/5 needs to be addressed as a matter of urgency; any

changes introduced under the targeted charging review can build upon this modification. These members do not consider that security of supply will be damaged by CMP264/5, but instead it will be maintained at lower cost.

- Members who believe that insufficient evidence or analysis has been put forward to come to a conclusion. These members consider that CMP 264/ 265 was taken forward on an accelerated timetable for developing the Modifications and proposing alternatives which did not allow for substantial analysis to be undertaken and that the report Ofgem received from the CUSC Panel therefore was not as thorough as it should have been. These members would like to the modifications rolled into the Targeted Charging Review (TCR) scope, or an SCR if required. These members consider that TNUoS residual is an element that should be looked at within the scope of the TCR and therefore Ofgem's determination on CMP 264/265 is likely to be superseded in coming years. These members are concerned with the risk of unintended consequences of such a substantial change made without considering the wider charging implications, that it could drive inefficient outcomes, and significantly increase investors' perception of policy risk in the UK, particularly as this change is proposed at the start of the TCR process.

Energy UK considers that it is important that Ofgem considers CMP264/265 holistically and looks at the impacts that this decision will have on different parts of the charging regime. Furthermore, the rate and pace of change needs to be considered in light of the need to maintain investor confidence at a time when the energy system needs significant investment. This will help to deliver a charging methodology which is cost-reflective, transparent, stable, and fair.

Members support a level playing field, in particular issues have been raised around market access, treatment of ancillary services and connection charges. Some of these issues are already subject to proposed code changes, but Ofgem must be mindful that if one part of the market is adjusted then other adjustments may need to be made elsewhere in the energy market structure.

The current charging arrangements are complicated and Energy UK members agree that they are in need of review. Ultimately, any changes to electricity charging arrangements should not negatively impact upon consumers. Changes to the charging regime should be cost reflective and not negatively impact the consumer bill. If left unchanged, it is likely that any distortions between transmission and distribution connected generation as well as different types of technology will widen.

If you have any questions about what is written in this response, please do not hesitate to get in touch. Energy UK would be happy to facilitate a meeting.

Kate Dooley
Policy Manager

T 020 7747 2942 **W** www.energy-uk.org.uk **t** @energyukcomms
Energy UK Charles House, 5-11 Regent Street, London SW1Y 4LR