

Reply to: Tim Rotheray
Director
The Association for Decentralised Energy
10 Dean Farrar Street
London, SW1H 0DX

Angus MacNeil MP
Chair
Energy and Climate Change Committee
House of Commons
London, SW1A 0AA

Dear Angus,

We are writing to you in relation to the Committee's ongoing Inquiry into Low Carbon Infrastructure in the UK. We wanted to draw the Committee's attention towards Ofgem's review of charging arrangements for distribution-connected generators and storage providers (so-called 'embedded benefits'), as notified in the Government's March 2016 Capacity Market consultation.

The Association for Decentralised Energy, Renewable Energy Association, RenewableUK, and Solar Trade Association are writing to you jointly to reinforce the fact that trade associations representing significant amounts of Great Britain's transmission connected and embedded generators, as well as aggregators, have a common and united view on this issue.

Embedded benefits is the term given to the exemption from various grid use of system charges for generators and storage connected to the distribution network, as opposed to those paid by transmission-connected parties. The Embedded Benefit is not a 'benefit', but a reflection that network charging is based on net flows. As distributed generators and storage do not use the transmission network, they should not pay for its use. More background information on this issue is contained in the enclosures.

The Government's intention behind the review of the Embedded Benefit was to help ensure the delivery of new transmission-connected gas CCGT power plants and damage the economics of diesel engines in the Capacity Market. However, there will be significant unintended consequences as this review will impact all 18 GW of distribution-connected generation, including wind, solar, biomass, energy from waste and both renewable and gas combined heat and power. It will also significantly impact the economics of new energy storage investments.

Network charging is a complicated and integrated area, with knock-on effects across the energy system. Any review should not be taken lightly or suddenly, but must instead be careful, holistic and systematic. National Grid are currently reviewing charging arrangements and there are further important interactions with other related areas, such as the Flexibility and Non-Traditional Business Model agendas and European grid code development, all of which require a joined up approach.

The decision to review the Embedded Benefit comes unexpectedly. This issue has been consulted on twice in recent years, most recently just two years ago, without any changes. To rush through changes now, in an attempt to increase delivery of new CCGT, would be a short-term response to a complicated, long term issue, and could cause significant harm to industrial manufacturers, distributed generators, and our long-term storage ambitions. This issue must be looked at in the context of the wider picture of energy policy in the UK, and risks mixing security of supply priorities with other policies, in a way that could potentially distort the market.

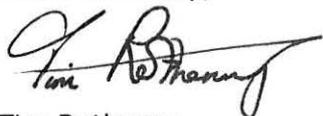
We are therefore concerned that the current timetable states Ofgem will set out a proposed way forward by this summer. Any changes to network charging will impact all distributed generators and storage, and must therefore be approached very carefully. While setting out a review process and scope early on will be important for industry transparency, the review

should not try to set out any proposals or recommendations to meet political timetables, such as the 2016 Capacity Market auction.

Of course we do recognise that as the network sees increasing numbers of flexible and variable generators, there is a need to ensure the network charging regime and its measurement of net flows are designed to meet future challenges. Any changes should aim to ensure charging arrangements facilitate a more flexible, local and cost-effective network for the benefit of consumers.

We would welcome the opportunity to discuss these issues further as your work progresses and would request that the Committee raises these issues with Minister of State Andrea Leadsom MP when she appears before you on Tuesday.

Yours sincerely,



Tim Rotheray
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Decentralised Energy**

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