# SEEBOARD

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Mr. Arthur Cooke,
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Dear Arthur

**Distributed Generation: price controls, incentives and connection charging: Further discussion, recommendations and future action.**

Thank you for the opportunity to comment on this consultation document, which provides a comprehensive summary of the views of the respondees to the initial consultation.

We broadly welcome the principles outlined in the Ofgem document. In particular we welcome the recognition that it is inappropriate to reopen the existing price control for distributors. We are also pleased that Ofgem have acknowledged that the next distribution price control will need to give consideration to the balance between facilitating increased distributed generation and the other obligations and duties required of distributors.

However, we still have a number of concerns that we wish to express about some of the detailed issues outlined in the document regarding the proposals for the period 2002-5, particularly relating to connection charges and the Electricity (Connection Charge) Regulations which we have detailed below. We should also like to point out that although the principles are focused on improving the conditions for distributed generators, it must be remembered that distributors have a duty not to discriminate between classes of customers. Therefore, any of the principles must also be applicable to demand customers.

**Distributed Generation and the next Price Control**

Ofgem's current workplan indicates that the decisions on the future structure of distribution charges and the objectives, and structure of the next price control will be made towards the end of 2002/03. This would seem to indicate that the work on distributed generation, which impacts these areas, will need to be finalised by the end of 2002. On the other hand, it would appear that the current workplan for distributed generation is due for completion by 2005. This would be too late for it to be factored into any future price control framework.

It is vital that the work in this area is accelerated, to ensure its proper consideration, and we would urge Ofgem to review its plans and publish a detailed timetable.

**Connection Charges**

We welcome Ofgem's proposal that, with the exception of DCHP installations, generation connections should continue to pay site specific charges. As we have previously stated our experience to date is that we have rarely been required to charge generators deep reinforcement costs.

As an interim solution Ofgem's proposal to allow generators the option of paying shallow connection charges up front and "annualising" any deep reinforcement charges is workable. However, this is only the case if Ofgem's suggested treatment of this expenditure (as outlined in section 5.24 of the consultation) is implemented i.e. the expenditure associated with deep reinforcement is added to the Regulatory Asset Base (RAB) and subsequent "annualised" connection charges are netted off against it. Such an approach removes the risk of generator default from distributors and consequently removes the requirement for generators to provide letters of credit. This will reduce the generator's costs and remove a possible barrier to entry. We believe this approach should be supplemented by the use of termination clauses in contracts to ensure that distributors have a means of seeking payment from any generators who may default on payment terms. If Ofgem do not support this approach then it may be necessary to revert to Letters of Credit and/or some form of cost pass through mechanism. This is vital to ensure that distributors are covered against the risk of stranded assets resulting from any form of default on the part of a distributed generator.

We are, however, concerned that the proposed approach for remunerating deep reinforcement costs will have an impact on the capital efficiency mechanism signalled at the last price control. The recovery of deep reinforcement costs via annualised charges will artificially inflate a distributor's asset base and may make it appear less efficient than is actually the case. It is clearly inappropriate for a distributor to be penalised under the capital efficiency mechanism, as a result of facilitating the connection of distributed generation. There is also the possibility that due to generator default a distributor may be deemed to be inefficient. This again would clearly be perverse. We believe that this issue can be overcome by ringfencing this expenditure and excluding it from any assessment of capital efficiency. We would ask Ofgem to confirm that this will be the case.

There are also a number of commercial arrangements that need to be clarified with respect to Ofgem's proposed approach e.g. the billing methodology for annualised charges. There are two possible options for recovering these charges, either the distributor directly bills the generator or the charges are recovered via the supplier. As an interim solution we believe that the distributor should directly bill the generator. We would, however, not support the extension of this methodology beyond this price control.

**Electricity Connection Charging Regulations**

We support the proposal to consult on extending the Electricity (Connection Charges) Regulations to permit the reimbursement of initial contributors, with respect to generator and non domestic connections.

However, we believe that it is essential that the five year time limit is retained for all connections. Our view is that the extension of the time limit would:

- make both the administration of remuneration and record keeping excessively onerous and impractical; and
- perversely penalise generation and demand connections dependent upon their location.

With respect to the latter, if the time limit were extended to the life of the distribution asset then those customers who required a connection at remote locations would be disadvantaged. Under this approach, if a distributed generator or a demand customer wished to connect at the end of an existing network they would be required to refund a proportion of all other customers' previous investments on that network. As a consequence, their connection costs would increase significantly. Such an approach is likely to present a barrier to entry for a number of types of distributed generation e.g. wind and wave, which tend to be situated at the extremes of existing networks. We do not believe that this is Ofgem's intent.

It should be remembered that the existing distribution network has evolved by new customers connecting unto existing networks. The purpose of the Electricity (Connection Charges) Regulations is to ensure that no customer "free rides" on the investment of another customer. It is not intended to fully remunerate all past investment in the network. In our opinion the five year limit strikes an appropriate balance between the practical implications of administering the remuneration to customers and maintaining the records with ensuring that no customer "free rides" on the investment of any other customer.

Whilst not specifically a distributed generation issue, we also believe that the Connection Charging Regulations must be amended to take account of the development of Competition in Connections. The proposed framework for Competition in Connections envisages distributors adopting third party constructed networks. However, if there are subsequent extensions and/or additions to that network it is unclear who would be responsible for any refunds to the initial connectees. The distributor will not have received payment or know the scale of the costs incurred by the initial connectees, or how they have been allocated. Hence, it is impossible for it to make the appropriate refunds.

**Improving Information**

In our view the level of detail in the proposed Long Term Development Statement will be of material benefit to very few (in the order of 0.1%) of the connections we make per annum. We have consistently stated that there is considerable scope to reduce the extent and cost of the detailed network information in the statement by recognising the data which it is better to supply in response to individual requests. We would continue to urge Ofgem to look at the format of the statement.

Also, as we have previously stated the objective of improving the user friendliness of charging statements would be better achieved by the publication of "plain english guides" covering a number of specific areas rather than amending the Condition 4 statement itself. The latter is an Ofgem approved document which has been written to encapsulate the relevant licence requirements and to support their legal interpretation. We believe it would be difficult to amend the statement to increase its user friendliness without damaging the legal interpretation contained within it.

**Financing of deep reinforcement in advance of clusters of generation**

We welcome Ofgem's recognition that there must be a suitable connection charging mechanism for deep reinforcement costs, incurred in anticipation of clusters of distributed generation.

However, in our experience, we more frequently need to provide deep reinforcement in anticipation of clusters of demand customers, as a result of the establishment of development areas or urban regeneration schemes.

Therefore, to prevent discrimination between customers any development of a connection charging mechanism for deep reinforcement must also be equally applicable to demand customers.

**Introduction of Generator DUoS**

We agree with Ofgem's position that in the short term it is unlikely that any interim GDUoS solution would be workable.

**Connection of DCHP**

We are particularly concerned that suppliers are not mentioned as a participant in the one stop shop process envisaged by Ofgem. The connection of DCHP will require the customer (or their appointed installer) to liase with a supplier. For example, any person installing DCHP would have to appoint a supplier to obtain an export and standby contract. Also, whilst a customer can own their own metering equipment and appoint their own meter operator, they must obtain the agreement of the supplier before they can do so.

It would be feasible for DCHP customers to connect to the distribution network without pre notifying distributors on the basis that they installed approved equipment and complied with the appropriate standards and regulations. The obligation would remain with those customers to notify the distributor as soon as they had connected in order that it could comply with its statutory obligations. However, there are a number of requirements of the competitive market which will require the distributor to be pre- notified of the connection of DCHP. For example, the distributor must be contacted so that an export Metering Point Administration Number can be created.

Therefore, while we support a simple procedure for the connection of DCHP we believe that it is essential that the distributor is pre-notified of its connection, irrespective of its size.

**Metering of DCHP**

We agree that as a minimum, both imports and exports for all distributed generation should be measured. We also agree that it would be inappropriate for any cross subsidy of DCHP or micro generation to occur in a liberalised market.

The principle of a one stop shop for DCHP customers is unlikely to be workable in practice, due to the requirements underpinning the competitive market. Furthermore, the introduction of competition in metering has removed the previous one stop shop available to customers, and consequently has increased their connection costs. The reason for this is that under the current arrangements a separate visit by the meter operator is required to install the meter, when previously the distributor carried out this activity when it was installing the service.

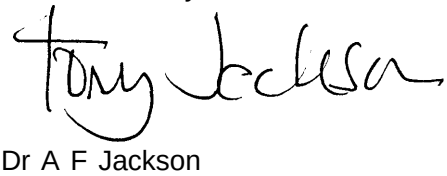
We believe that it is highly unlikely that installers of DCHP will be suitably qualified, accredited and authorised to undertake the necessary metering changes. It should be remembered that any person undertaking the installation of metering equipment would, under the proposed Electricity

S ly, Quality and Continuity Regulations 2002, be classed as a meter operator with all the attendant liabilities and obligations.

These are important issues that should be addressed by the workstream that is taking forward all of the metering issues.

I trust you will find our comments helpful. If you have any queries on our response or wish to discuss any points further please do not hesitate to contact Colin Gardner in SEEBOARD Power Networks.

Yours sincerely,



Dr A F Jackson
Director of Strategy and Regulation