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Dear Arthur

Distributed Generation – A Review of Progress

The above paper was published at a similar time to the open letter to CEOs from Callum McCarthy and does to some extent cover similar issues. In our response here we keep brief comments already expressed in our response to the open letter.

Annualised Charging: Our views are expressed in our response to the 'open letter'

Reimbursement of non-domestic 'initial contributors' from later connections: We support the principle that the connection charge regulations should be extended to cover all high cost connections. However, the amendment currently laid before parliament whilst being an apparently simple change does in fact introduce such complexity to the connection charging process as to make the full application of the regulations practically unworkable. Some of the additional complexity is introduced by other changes either in place or proposed to charging structures.

As currently in force, the regulations have only applied to very limited numbers of domestic connections. This is due to a number of elements which combine to make the existing Regulations workable. Firstly is the limitation to domestic only. However, the de-minimus limit of £200 combined with the standard connection charge which most distributors used until recently automatically excluded 90% of domestic customers. This worked since the standard connection charge was less than €400, so where it had been charged, if a second comer came the refund could never be more than £200. In addition many 'high cost' connections were in unique locations where planning restrictions would automatically exclude additional connections which were not apparent at the time e.g. derelict barns. The result was that the Regulations in practice only applied to very limited cases.

In order to meet the challenge of competition in connections, all distributors have now moved away from the standard connection charge and are being encouraged to abandon tariff support. The effect of these moves is to increase vastly the applicability of the Regulations. Unfortunately the Regulations are based on an ex-post de-minimus level. In order for to comply with the Regulations a distributor must now record every connection and, when assessing every new connection, check for assets installed within five years and perform a calculation to apportion costs. Only after this additional effort can the decision be made as to whether the Regulations will apply. This will add both cost and time to every connection application.

A move to an ex-ante de-minimis test would remove much of this complexity at a stroke. The Regulations are based on the premise that if one customer has paid for an expensive connection, the second comer should not be able to free ride. It would be reasonable, therefore, to set an ex-ante de-minimis level to be that which is considered not to be an excessively expensive connection. The revised Regulations would suggest a level of at least €600, but a level of £1,000 for domestic customers would be more appropriate.

In addition, costs for connecting larger non-domestic customers are significantly more than those for domestic and a de-minimis level of £600 or even £1,000 is too low. Again based on what a customer may reasonably expect to pay where there is no second comer we would suggest €2,000 for NHH LV, £5,000 for HH LV, £20,000 for HV and £50,000 for EHV.

With a move to an ex-ante de-minimis test, it would cut the requirement to keep records and perform a calculation in the majority of cases. It would make the Regulations workable for whom they are intended (i.e. more expensive connections) and increase the likelihood of full compliance.

In addition to the above, we would note that the Regulations only apply to connections given under the Electricity Act. Ofgem are currently promoting competition in connections whereby connections will not be made subject to the Act. As such the Regulations will not apply.

Banding of Generation: We support the principle of banding or classification of distributed generation. In order to determine appropriate banding it is necessary to understand what the bands will be used for.

Separate identification of import and export: We support the mandatory use of separate recording of import and export units.

Full Information: We support the provision of appropriate information.

Modification of ER P2/5: Much is made in the paper as to the revision of ER P2/5 enabling generators to contract with distributors as an alternative to investment in the network. In our view as ER P2/5 is technical and not a commercial standard its revision in itself will offer no commercial benefits to generators and in some instances it may even reduce the ability of a generator to gain commercially as an alternative to network reinforcement. However, irrespective of whether ER P2/5 is actually revised or not, the work which is being undertaken to assess the reliability, both technically and commercially, will be valuable to enable distributors and generators to value security services a generator may offer. Our view is that these are equally if not more likely to be of interest to a distributor in offering security above ER P2/5 in order to meet IIP targets as they would be to simply meet ER P2/5.

Structure of Charges for Distributed Generation: Our views have been expressed in our response to Ofgem's structure of distribution charges consultation.

In general we note that the paper is intended as a review of progress on Distributed Generation and is not intended to introduce new issues. As such we do not see this paper as altering any views already expressed by ourselves in previous responses.

Yours sincerely

Andy Phelps
Regulation Director