

Paul Jones  
Trading Arrangements

Arthur Cooke  
Distributed Generation Co-ordinator  
Ofgem  
9 Millbank  
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SW1P 3GE

11 February, 2003  
Reference

Dear Arthur,

### **Distributed Generation: A review of progress**

I write on behalf of Powergen on the above progress report. As Ofgem correctly states in the report, distributed generation impacts on a number of different policy areas. The document is therefore very useful in pulling together these different strands so that their interactions, plus the different roles and responsibilities of different authorities, becomes clearer.

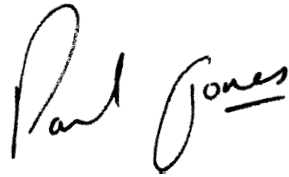
1. Powergen remains supportive of moves to ensure that there are no undue obstacles to the commissioning of all forms of distributed generation, whilst ensuring that a level playing field is maintained with generation connected to the transmission system. We would agree that a move to shallower connections for distributed generation plant would make it consistent with transmission connection policy, in which more of the cost of reinforcement work is classified as infrastructure and charged as Use of System. Annualised connection charges would appear to be an important first step towards this. We appreciate that distribution companies will wish to ensure that they are not exposed to unnecessary risks in charging on this basis, but we believe that arrangements can be reached which will satisfy both generator and distributor alike.
2. We recognise that it is considered that there is not enough domestic CHP in existence at present to justify the construction of a separate Generation Distribution Use of System (GDUoS) charge. We presume, however, that this does not mean that new connections at the domestic and small business level will be subject to a deep connection policy. It is likely that the impact of this type of generation will be negligible until significant numbers connect. The point at which it is deemed that it would be appropriate to create a GDUoS charge and the transition to such a charge will need to be considered carefully.

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3. We continue to agree with the view that sites with generation should have exports and imports measured by separate registers. The use of net metering could lead to the creation of cross subsidies especially for sites with Non Half-Hourly (NHH) meters. Modification P81 was recently submitted to the Authority for approval, with a recommendation that domestic and small business generation should be able to be metered with NHH metering. We support this modification and feel that the requirement for separate registers will cause no more issues than say the use of dual rate metering.
4. Clearly, in certain instances the presence of generation on a distribution system can bring benefits to a distributor, as it may be mean that the distributor is able to avoid reinforcing the network for times of system stress. It may therefore be appropriate to consider a reduction in connection charges for these instances. However, should a shallower connection policy be adopted, it is difficult to see how this could be achieved as generators would not be exposed to the full costs of connections and arguably therefore should not be exposed to the full benefits. This does not mean that we believe that a generator should not be rewarded. Neither do we necessarily believe that a deep connection policy should be retained. However, in a shallower regime it may be more appropriate for the distributor to strike agreements for these services of a similar form to those which are entered into in respect of balancing services on the transmission system.
5. We welcome the introduction of Long Term Development Statements from the distribution companies. This will provide valuable planning information to those seeking to invest in distributed generation, in a similar manner that the Seven Year Statements do in respect of the transmission network, and will help ensure that new generation connects to appropriate parts of the network. This will in turn help distributors as they seek to operate their systems in a more dynamic manner.
6. In theory, Registered Power Zones could be useful in trialling a number of methods for dealing with distributed generation. However, their creation could in practice become problematic. For instance, should these zones be used to try out different commercial arrangements there would be a danger of discriminating against generators connected to other parts of the network. If innovative operating arrangements were being tried out there is a danger that this could detrimentally affect other users connected to the same part of the network, in particular demand customers. The creation of RPZs would therefore have to be considered very carefully.
7. We have seen recent modifications to the BSC and charging methodologies which do not create a level playing field for distributed generation, but have sought to tilt it in the favour of certain players by creating implicit subsidies in the arrangements. Some of these have been successful. We continue to support the Government's targets for the proportion of generation to come from renewable energy sources. However, it would be unfortunate if this were achieved at the expense of inefficient investment decisions, which could ultimately lead to increased environmental costs in other areas such as increased losses from the network.

I hope the above views prove helpful.

Yours sincerely,

A handwritten signature in black ink that reads "Paul Jones". The word "Paul" is written in a cursive style, and "Jones" is written in a more formal, slightly cursive style with a horizontal line underlining the end of the word.

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