

From: Andrew Walker
To: chris thomas
Date: 6/14/02 5:17:28 pm
Subject: Re: Regulation of Electricity Distribution Licence Holders

Hello Chris

thank you for you response. We will consider carefully the points you make in formulating future policy in this area. As many of the comments you make relate to distributed generation I will copy your email to my colleagues who deal with these matters.

Regards

Andrew

>>> "chris thomas" <wisenergy@hotmail.com> 6/5/02 5:17:41 pm >>>
5 June 2002

Email to Andrew Walker, Ofgem, andrew.walker@ofgem.gov.uk

Dear Andrew

Regulation of Electricity Distribution Licence Holders

I refer to your open letter of 31 May on the above subject.

Since leaving Ofgem, I have set up in private consultancy practice, and am particularly engaged in the connection of embedded generation. Regulation of Distribution Licence Holders is therefore of importance to my clients and to myself.

- Distributors in general do not seem particularly keen to facilitate the connection of generators onto their system. This is manifested in delays in correspondence, high quotations, and general absence of cost breakdowns, either by material and labour, or by contestable and non-contestable.

I consider that distribution licensees need to have requirements placed upon them to respond to correspondence pertaining to new connections (whether generation or load) within a certain period of time, and for there to be explicit and mandatory requirements for the level of information and cost breakdown that should be provided with every connection charge quotation.

- The difficulty that I have faced from time to time (and I know my way around the system) leads me to understand why developers should be looking to small licensees to connect up their developments, rather than going to the incumbent "large" licensee.

Distribution remains an effective monopoly, and is closest to most customers. It can also represent a significant proportion of the total electricity costs paid by any customer. Customers who are connected via a private, or "small", distribution network will still have to pay DUoS charges to the host "large" distributor, unless their local system has a generator, or its own GSP. Therefore a property developer, for example, may contract for connection with a small licensee as it is easier and more convenient to do so, but by so doing land the subsequent owners/occupiers of the development with additional charges for their electricity.

A similar position could exist with a generator; an embedded generator connected via a small distribution system to a traditional large one could also face a double set of charges.

- As has been discussed many times, and indeed stated in formal Offer/Ofgem papers, embedded (or Distributed) generation of the right size, and in the right place, can confer significant benefits upon the operator of a distribution system, in terms of reduced system losses, avoidance of need to reinforce the system, and (for someone, which could be the DSO) reduction in Triad charges. Licensees should therefore be obliged to publish scales of payments that would be triggered in the event of certain system benefits being conferred. If this were worded correctly, this would cover the fact that such benefits are not automatic, but will depend upon developments being in the right place, and of the right size.

To do this requires that the developer of embedded generation has, or can gain access to, certain knowledge about the distribution system. I am aware that Distribution seven year statements are under development. However, there is a need to go further than this. Licensees should be placed under an obligation to enter into discussion with developers (and this could be developers of new load, as well as of embedded generators) in order that the developer can establish the level of spare capacity on the network, or the level of capacity that would confer the maximum benefit on the network, and where this would be best placed.

- Even developers of new load are often in a position to design their development to stay just below a certain capacity threshold above which significant system reinforcement is necessary, while a new generator will certainly wish to avoid unnecessary reinforcement of the system. At present, this information is almost impossible to obtain; the reaction of the licensee is usually one of "tell us what you want to connect, and we'll tell you how much it will cost". They all seem very loath to discuss what is actually on their networks. This not only places the developer at risk of additional cost, but may also prevent the licensee from maximising the benefit of developments on its network.

- Operators of small distribution networks will inevitably find it harder to provide the same levels of service as the large operators, especially when things like 24 hour telephone contact and support are concerned. Such operators may have to contract this out. Measurement of system performance should be to the same standards as the large operators, but small operators should be allowed to average over a much longer period in order to isolate the effects of a single fault which could disconnect, possibly, all of their customers. Something similar would be needed for additional revenues and penalties.

- The section on alternative financial arrangements gives me much cause for concern. It is essential that any developer, when arranging for new connections of any variety, should be able to depend upon the continued operation of the system to which he connects. This is particularly true of someone who connects to an existing small network which has the distribution licence for the area of the development, and thus connection to a large distributor would not be possible without duplication of mains equipment.

Means should be adopted whereby, should a small distributor fail financially, the network is seamlessly taken over by another licensee. I would be very cautious about making this the "host" large licensee, as it could then be in that large company's interest for the smaller to fail so that their network can be extended without the need to purchase the smaller company. Given that a small distributor will almost certainly be dependent upon the larger, and may receive some of its revenue streams via the larger company, it would not be difficult for the larger company, should it wish, to damage the cash flow of the smaller sufficiently to cause it to go into receivership.

Perhaps all small distributors could contribute to some form of mutual assurance fund, like an insurance policy, to provide cover to ensure continued operation until a formal sale or takeover could be properly negotiated. Membership of such an arrangement could be a sufficient alternative to the existing SLC46.

I hope these thoughts will be helpful. Please call me if there is anything you would like to discuss.

Kind regards

Chris Thomas

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CC: Arthur Cooke