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RESPONSE BY EMAIL ONLY

7 May 2004

Dear Mark,

Microgen comments on the Ofgem update document: 'Structure of electricity distribution charges' (Ofgem ref 76/04)

Thank you for the opportunity to comment on the development of the structure of electricity distribution charges.

Cost reflective and transparent charging structures are essential to the efficiency of network development, and the delivery by distribution companies of their obligation under the Utilities Act 2000, to facilitate competition in supply and generation. Our responses to previous consultations provide an overview, with supporting information, for how we believe distribution charges should be developed to best deliver this. The appendix to this letter concentrates solely on the issues raised in the update document.

We welcome the suggestion made by many respondents that there should be a micro-generation representative on the Implementation Steering Group.

The 'System Impact of Additional Microgeneration' study, being managed under the Technical Steering Group Microgeneration workstream should also provide a useful, independent, view to guide the development of the charging structure.

Please contact me if you would like to discuss these comments in more detail.

Yours sincerely

G Roberts
Graham Roberts
Regulation Manager – Microgen

Appendix – Comments on the update document

Extracts from Ofgem's document (abridged where appropriate) are presented in italics.

Generation Use of System Charging

Paragraph 3.29:

> *It will be for the DNOs to propose their approach to setting tariffs for distributed generators but essentially these methods should be cost reflective as far as practical and efficient to do so, should be predictable and not cause undue volatility. Initially, Ofgem expects that the charge will be capacity based and this may vary by voltage and location if this is appropriate. The DNO will determine the tariffs by considering what the likely costs are for connecting distributed generation at different voltage levels on their network and whether specific locations will incur significantly different costs. This analysis will form the basis of the tariff structure. The more accurate the forecasts are and the greater the degree to which they are represented within the tariffs the lower the scope for volatility in the tariff and the level of unpredictability.*

Microgen response:

From the micro-generator customer perspective there are two potential problems with this approach:

1. Different DNOs may arrive at different answers – increasing complexity for users.
2. A 'capacity based' charge may be accurate enough if used on a £/kW basis, for comparing, say, a 10MW generator to a 5MW generator, but the costs derived from these types of generator do not reflect the costs or benefits of micro-generators.

We cautiously welcome Ofgem's statement in paragraph 3.30, which appears to recognise point 2, but remain concerned that the direction of the structure of charges may not give appropriate importance to this.

Summary of Responses to the November 2003 Initial Decision Document (appendix 3 in the Ofgem document)

Paragraph 3.24:

> *A number of respondents asked that the effects of DG on the network be taken into account. Some respondents suggested that this could result in negative UoS charges, a suggestion opposed by a DNO, which noted that all connectees receive services from their network operator.*

Microgen response:

Addressing this in the context of micro-generation, it would be correct to apply a negative UoS charge to the generator, recognising that the same customer is already paying a charge for the 'network services' as a demand user. This recognises that the user must pay for the costs they impose on the system, but should be rewarded where they reduce system costs.

G Roberts, May 2004