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Dear Mark

PROPOSED DNO CHARGING METHODOLOGY STATEMENTS

We have the following comments on the above.

Use of System Charging Methodologies

It is difficult to assess whether the proposed charging methodologies meet the licence objectives at this early stage of development, especially as generation has yet to be connected under the proposed distributed generation incentive. Over time, through the creation of an appropriate user forum, we would expect the appropriate methodologies to emerge, whilst recognising that geography and mix of users may still differentiate some networks.

Nonetheless, we are surprised at the variation in GDUoS charges across the networks. In the chart below, the demand Transmission Network Use of System (TNUoS) benefit (shown negative) paid by NGC to a Small, Half Hour Metered, embedded generator (or their associated supplier) is shown by the dark blue trace. The zones have been ordered such that the benefits are monotonically increasing, i.e. southern zones with larger payments are on the left.

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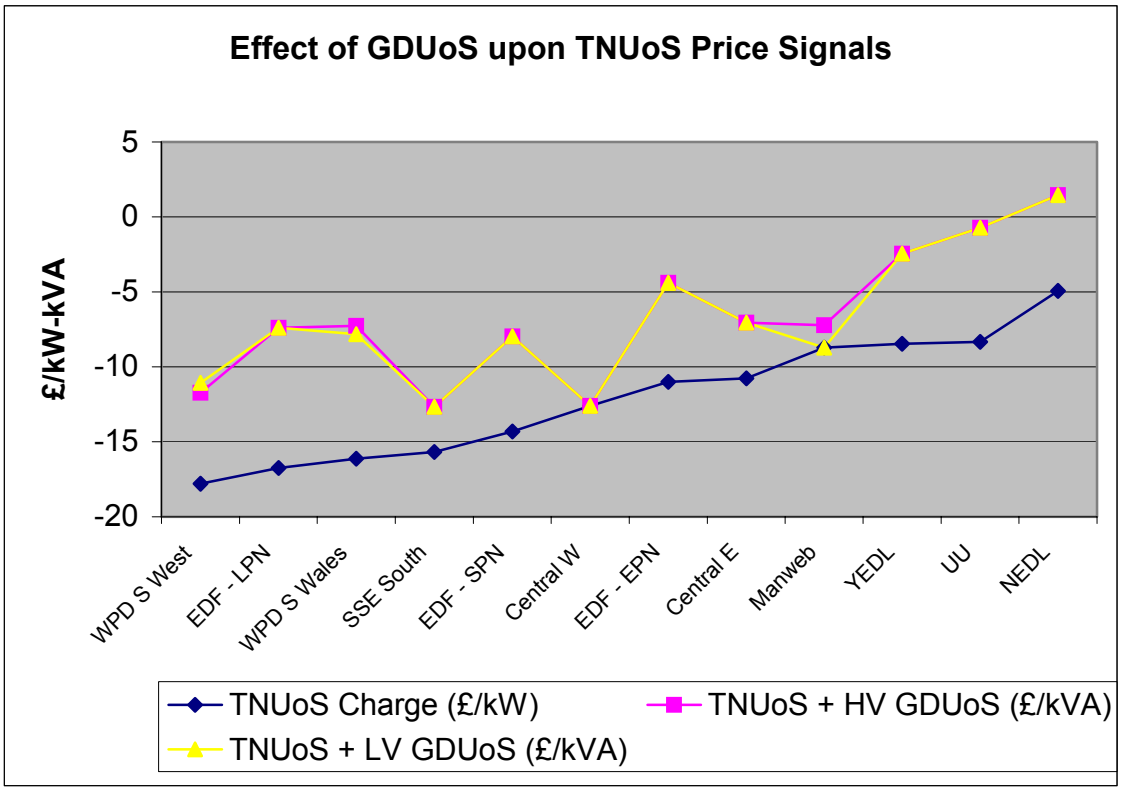

The yellow and pink traces show the net benefit (shown negative) after allowing for the LV or HV GDUoS charge. For simplicity we have assumed that the generator would operate to unity power factor, which tends to under-estimate the GDUoS charge. The chart shows considerable variation in the signals given by TNUos and GDUoS combined. For example, the TNUoS only benefit of siting a generator in London (EDF-LPN) is greater than that of siting a generator in the West Midlands (Central W) but with the addition of the distribution charge the reverse is true. It is unclear if this is due to different methodologies, different incremental costs or different incremental revenues between DNOs.

It is important to ensure that generators make economic and efficient decisions and that distortions between transmission and distribution charging are avoided. This can be achieved if all charges are appropriately cost reflective and consistent regulatory policy is applied across both transmission and distribution networks. We look forward to these matters being addressed both within this consultation process and as part of Ofgem's development of an enduring solution to the issue of interactions between transmission and distribution connected generation, which was described in the BETTA consultation on small transmission connected generation.

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Power Factor Charges

As stated in the consultation document, adverse power factors lead to early reinforcement of distribution networks. They also lead to additional reactive compensation installations on the transmission system. The cost of these installations is currently shared across all suppliers and generators through TNUoS charges and we have not yet identified an alternative methodology that would better target these costs upon 'polluting' users. Nonetheless, we agree that DNO charges, through the use of reactive tariffs, should encourage distribution users to operate their connections near to unity power factor to ensure efficient use of both transmission and distribution.

Yours sincerely

Tim Tutton