

Structure of electricity distribution charges RPA response on the consultation on the longer term charging framework

The Renewable Power Association (RPA) welcomes the opportunity to respond to this consultation. For a number of years the RPA has been involved in the development of the interim charging arrangements and its representative ILEX has participated in the Distribution Charging Implementation Steering Group since its formation in late 2003. The RPA has responded to previous Ofgem regulatory consultations relating to the structure of distribution charges.

Many of the concerns and issues raised in our August and November 2004 response to Ofgem's open letter regarding the Electricity Distribution Use of System & connection charging methodologies remain valid.

As a generator trade association we are broadly supportive and agree with the key ISG/Ofgem principles of cost-reflectivity, simplicity, transparency and facilitation of competition. Based on these principles we consider it appropriate that generators should in addition receive predictable signals in order to plan for investment over the lifetime of a generator asset. In this regard, we welcome Ofgem's commitment to improving the transparency and user input into electricity distribution charging. We believe that sufficient information should be available for generators to accurately predict the level of Use of System charges. In addition, divergence between the different DNO charging methodologies should be minimised.

We support the interim charging arrangements and in particular recognise the initiatives which have been taken under the recent distribution price control to introduce 'shallowish' connection charging and various incentives for distribution companies to consider, regarding the connection of distributed generation.

The connection cost and the use of system charges levied by distribution businesses, represent direct costs to the project over its lifetime. The boundary between these two areas of recovery needs to be considered carefully when designing a longer-term framework. Whilst the move to the 'shallowish' connection charging methodology should reduce initial generator connection contributions (especially where significant network reinforcement is required), we remain concerned that overall, the introduction of Generator Use of System charges could represent a more expensive arrangement when full project lifecycle costs are considered. Indicative examples illustrating this concern were included in November 2004 response, and in our view, these examples should form part of the 'test' for any new planned approach.

Existing Models

We consider that the current charging model, namely the 500 MW distribution reinforcement model (DRM), is in need of overhaul as it clearly does not recognise or account for generation at distribution levels. In this respect we would support a new model which encompassed modelling of both demand and generation, rather than separately, as suggested by some DNOs.

Drivers

The consultation document and the associated academic papers, which were discussed at the May workshop, suggested different drivers for DNOs when considering the development of a charging structure. We agree with the observation that the major investment driver for DNOs will be based on capacity rather than on units, although at lower voltage levels and particularly at a domestic level, kWh can be used as a proxy.

Other than this, we consider that there is an urgent need for further research into the appropriate drivers at different voltage levels as far as generators are concerned, as it is clear that there no conclusion at the workshop nor enough common ground in the academic papers. For example, in some cases fault level may be a driver for investment, in others it could be reactive power. The treatment of losses also demand attention, and a model that allows this to be taken into account would be a welcome development for both demand and generation. The timescale for completion of this driver research is urgent if it is to sensibly influence the design of a charging structure. Note should be taken of the technical work of the Distributed Generation Co-ordinating Group in this area.

Comparability

There was much debate at the workshop and in the consultation paper about value of the DNOs adopting different charging models. We are sympathetic to the Ofgem view that some comparator is useful but this must be balanced by the ability of generators to understand between regions what is occurring. It would be perverse if a decision to connect a generator in one area was driven by a completely different model outcome. Models should also be transparent and able to be replicated by users so that they can make estimates on their own behalf in order to sensibly price and plan projects.

Whilst some regional variations will be inevitable, the RPA does not accept that such significant variations can be justified or cost-reflective when considering the provision of fundamentally comparable services.

Boundary Issues

As far as the charging structure at higher voltages is concerned, the RPA feels that there should be a close examination of the methodology adopted by

NGT. Again it would be perverse if generators were basing a decision on where to connect at a particular voltage level dependent on strikingly different methodologies. Equally when connecting and operating at a distribution level, generators should not be subject to additional transmission charges.

Connection Status

Some generators may be comfortable with a lower connection charge or reduced use of system charge in exchange for *less than firm* access. This feature may become increasingly popular in order to achieve rapid connection to the network, but it needs defining carefully. Similarly there is an urgent need to properly define existing and future firm access and what rights that gives generators for compensation if connection is lost, and from which party redress will be forthcoming. Clearly compensation may well cover a range of values depending on the generation source and what value it is bringing to the network.

Grandfathering

Ofgem also asks for views on the charging of generators that are already on the system. Some generators will have paid a high deep connection cost and in these cases if they are expected to pay generator use of system charges there is clearly need for a refund reflecting a shallowish connection. It was the workshop's conclusion that these circumstances maybe relatively limited as many generators will have connected in the past where there has been network 'headroom' and therefore their charges may have been close to shallowish anyway. It is important to survey and identify all connection cases ahead of any potential dispute.

We would be against any proposal to introduce Generator Use of System charges for existing generators ahead of 2010.

Symmetry

The RPA is firmly of the view that both demand and generation should be treated in the same way in any model. This is particularly important when a generation source such as CHP is considered - as the site which it would be connected to may act like a demand or generation site in any one half hour. This test is therefore a valuable one in assessing the successful working of any model. As the level of generation increases in line with government targets the contribution of this customer group to peak demand (the coincidence) and the diversity and load factor within particular zones will be more obvious and apparent, as it is presently, with demand. Before that position is reached however there may need to be some form of transitional

charging in order to cater for the 'lumpiness' of the investment relating to individual generators and their affect on the network.

Model Design

The RPA has already indicated that it considers that further work is necessary to establish the key generator drivers for investment decisions in the network. We do not necessarily favour any of the three academic approaches. Our members are however aware and familiar with the NGC transmission ICRP model together with its zonal locational charging features. Whilst this might be difficult to properly operate on a distribution network, some form of regional signal is appropriate in order to inform generators in their siting decisions¹.

Future-proofing

Turning to the long-term, any future charging methodology needs to be sufficiently flexible to reflect the move to active distribution networks. This may be sometime beyond the next price control but within the investment time-scale for generation being installed in increasingly higher numbers over the next three or four years.

Responsibility for recovery of charges

Structurally, the role of the distribution network operator and the supplier in recovering charges for the network may also have to be examined. The 'supplier hub' principle that underpins this relationship may need to be revisited in order that the DNO continues to recover the appropriate costs from the appropriate party, particularly if DNOs promote active networks.

The RPA will continue to contribute to the development of short and long-term solutions to distribution network charging issues, and agrees that the ISG should continue to develop future charging policies. Should you require any clarification regarding any of the issues contained within this document, please do not hesitate to contact, in the first instance, Gaynor Hartnell.

¹ **This should in any case be supplemented by greater 'granularity' in DNO LC25 statements in the future.**