

Colin Sausman
Associate Director – Transmission Policy
Ofgem
9 Millbank
London
SW1P 3GE

Your ref
Our ref
Name Terry Ballard
Phone 01793 892715
Fax
E-Mail Terry.Ballard@rwenpower.com

9th December 2005

211/05: Enduring transmission charging arrangements for distributed generation

Dear Colin,

We support Ofgem's view that following the introduction of BETTA and the GB Charging regime it is appropriate to consider the effect of distributed generation on the transmission system. Addressing the issue now gives industry ample time to arrive at an appropriate solution in advance of the anticipated growth in distributed generation.

Whilst we would generally support the view that parties causing cost to the system should pay for it, and that the present system does have the potential for perverse incentives, it is important to keep the size of the problem in perspective. At present much of the larger distribution connected generation has already signed a Bilateral Embedded Generator Agreement (BEGA) and as such has secured TEC leaving a relatively smaller number of schemes without a contractual arrangement that allows for transmission charges.

Although major growth in distribution connected generation may be expected, there is little evidence of schemes coming to fruition at present. Alternatively, it may be that the perceived problem only occurs in limited areas of the country such as Scotland where planned reinforcement may significantly reduce the amount of generation connected at 132kV.

It may therefore be better to acknowledge the current shortcomings and aim for a robust enduring solution. For the immediate future, we would support Option 1 of doing nothing other than Ofgem making a decision on CAP93 to provide clarity regarding the ability of a distribution network to flow power on to the transmission network.

We generally agree with Ofgem's evaluation of the options contained within the consultation document and note that some of these may require considerable work before they can be introduced. We would support a variation on Option 7 where each DNO secures appropriate rights for all users of the relevant distribution network. This approach would ensure that there is equitable treatment of all users that affect the transmission system.

RWE npower

Trigonos
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwenpower.com

Registered office:
RWE Npower plc
Windmill Hill Business
Park
Whitehill Way
Swindon
Wiltshire SN5 6PB

Registered in England
and Wales no. 3892782

Our proposal is an extension to the DNO's normal management of their system in that as well as forecasting the demand within its area and providing a TEC, it would also forecast the level of generation likely to spill on to the transmission system and secure an appropriate level of TEC. The DNO would have the choice as to whether to secure sufficient TEC to enable all generation to use the transmission system or to secure a proportion of this TEC and actively manage any surplus within its network. This active management of the distribution network is a natural consequence of the growth in distributed generation and provides a mechanism for DNOs to incur efficient investment in their networks.

The DNO would recover the cost of this service from the distributed generation within its area through its charging mechanism. The methodology for doing this would be approved in advance by Ofgem. The advantage of this approach is that it leaves DNOs responsible for managing their systems whilst reflecting the true cost of any impacts on the transmission system. The distributed generator would be charged either for the cost of using the transmission system or the cost of the DNO managing the network such that use of the transmission system is avoided. The generator's principal contractual relationship would be with the DNO and it is unlikely that any contractual relationship would be required between the generator and NGET. Any charge levied by the DNO will need to be transparent and consistent with each embedded generator's contribution to the 'spill' TEC and resulting TNUoS charges incurred.

We believe that the variation to Option 7 outlined in this response represents a pragmatic and practical solution to the issue of charging for use of the transmission system by embedded generators. While we agree with Ofgem's view that the Agency/Principal route may be the most complex, if it were targeted for introduction in 2010, it could be clearly signalled to developers and any impacts on DNOs' costs considered during the formulation of the next distribution price control. In addition, it would be in place in time for any significant growth in distribution connected generation.

A 2010 implementation would also enable the impact of GDUoS to be evaluated alongside any transmission charges and implementation to be carried out so as to avoid sudden changes in charges. In order to maintain investor confidence particularly in distribution connected renewable generation, it is important that sufficient notice of changes are given.

If you wish to discuss any aspect of our response, please do not hesitate to contact me.

Yours sincerely

Terry Ballard
Economic Regulation