

Rachel Fletcher
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Dear Rachel,

Delivering the electricity distribution structure of charges project

The CHP Association welcomes the decision to implement a common distribution charging methodology. We would prefer implementation as soon as practical, and ideally no later than October 2009, but we understand why Ofgem considers April 2010 as an appropriate time to introduce the new requirement. We also agree that Ofgem should take the decision on the methodology for common adoption and implement it through a collective licence modification.

The supporting detail on the decision and the project appended to Ofgem's 22 July letter provides a robust basis on which to take the project forward.

We set out below responses on the specific questions in the open letter.

▪ Whether respondents agree that we should specify the common methodology to be applied across DNOs

We agree that OFGEM should specify the common methodology to be applied across DNOs

We doubt the distributors will be able to agree a common methodology amongst themselves in a timely fashion, and we therefore agree that Ofgem should approve the common methodology and decide between the competing methodologies. Among other benefits a common methodology will create a more stable and consistent framework for distributed generation investment.

▪ The pros, cons and impacts of each model

We do not have detailed views on each of the features that Ofgem has tabulated. We would however make some general points:

- the key requirement is to integrate generation charging in a way that reflects back to developers the system benefits they create. The common methodology also needs to enable local trades to be carried out by distributed energy developers, including cogeneration schemes, effectively by enabling short-haul trades and recognising the restricted use made of the wider system;
- most developers have a strong preference for stability and commonality, but it is hard to see how the same approach can be adopted for EHV and lower voltage charging given their differing cost characteristics;

- there is a key trade off between cost-reflectivity and stability of charges. Stability is very important to developers because of the scale of their investments, especially in an environment where year-on-year changes can fluctuate significantly because of over and under recovery;
- options that include capping year-on-year changes and giving users the option of a more stable charge based on a prediction of charges into the future would seem to have merit given the government's and the regulator's wider objectives for the sector; and
- based on the desirable properties above and the pros and cons listed FCP would seem to provide the more stable longer-term charging environment.

▪ **Governance arrangements and the options set out in annex 3**

Overall we feel that an industry code governance arrangement based on the DCUSA model is best. As with the BSC and Ofgem's recent proposals for change to governance, distributed energy providers should have the ability to propose change. However the restructuring should not be achieved through the separate governance review initiated by Ofgem, and the new arrangement would need to be fast-tracked if the necessary timescales are to be achieved.

We agree that price changes should only be implemented at certain times of year (for example April 1st), but see no reason to limit the time when modifications that may lead to price changes could be considered in advance of these dates.

▪ **The proposed processes set out in annex 4**

The timescales and processes look broadly correct. The tasks of the working group should be front loaded where possible to ensure the deadlines are met.

▪ **Whether there are any other matters we need to consider in light of the decision on a common charging methodology.**

No comments

Any questions regarding the response, the CHPA would be pleased to follow up with a meeting or please give me call.

Yours sincerely,

Graham Meeks

Director, CHPA