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Dear Rachel / Lewis,

Common DUoS charging methodology consultation

The Renewable Energy Association is pleased to be able to offer its comments on your consultation following the decision to implement a common DUoS charging methodology for all DNOs from April 2010. As you are aware our members work on all types of renewable power and heat projects and cost-reflective charging for the distribution network is key to attracting appropriate forms of generation to locations near demand, where its environmental benefits are increased.

In our response to your previous consultation we supported a common methodology and suggested that April 2010 would be an appropriate time to introduce it. We are therefore pleased with your decision to decide on exactly that. We do however appreciate all the work that the different DNOs have undertaken over the past three years in developing possible methodologies. All of them have some good points and we agree with you that the work undertaken to date is not wasted as it will inform the decision on which methodology to adopt in a far more thorough manner than would have been the case had a number of methodologies not been developed to the level of detail that they have.

We now address the specific matters on which you have requested views.

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

We agree that in the final analysis if there is to be a common methodology Ofgem will have to approve it and may have to decide between different competing methodologies. We note Ofgem's belief that the DNOs will not be able to agree a common methodology amongst themselves in a timely fashion. However, the fact that they have developed more than one methodology to date is due to them not having had a requirement for there to be a single methodology. Unless the DNOs request Ofgem to make the decision or there is compelling evidence that they would fail, there is considerable merit in allowing them until say the end of

September to try to decide on a common basic methodology. This would still leave 18 months until the methodology was to be implemented.

If DNOs should fail to reach a consensus, Ofgem could make the decision instead, by the same date, based on its current views, responses to this consultation and further industry discussion.

The benefit of this is that it would also allow further consideration by the industry in a more focussed way than has been the case to date. All of the methodologies have their good points and a focussed debate about the relative merits of each, in the context of having to make a choice between them, has not yet taken place but should do over the next two months.

2. The pros, cons and impacts of each model

We do not intend to give an item-by-item view on each of the features that Ofgem has tabulated, although as discussed above we really do feel that there would be merit in an industry meeting going over these point-by-point with champions of different methodologies allowed to make their case. Possibly this could be done at an extended DCMF on 5th September. We would however make the following general points.

1. We do not understand why it is sometimes maintained that charging at ehv should have a different methodology to that at hv/lv. It may be that for expediency it is not yet practical to apply the same degree of analysis to the actual hv/lv networks as it is for the ehv network. This can be accommodated by using a typical hv/lv network (or perhaps two, one urban and one rural) for each DNO area and applying the same methodology to the representative hv/lv networks as to the ehv network. This would provide a consistent methodology and should be more cost-reflective than applying a different methodology for the hv / ehv networks.
2. Whilst there is merit in taking into account all cost factors in the methodology, if this does not work then it may be appropriate to recover some costs through connection charges, e.g. fault level-related costs.
3. Clearly there is a key trade off between cost-reflectivity and stability of charges. We believe that it may be preferable to consider stabilising methods at the back end of any methodology rather than making them less cost-reflective in the first place. Options include capping year to year changes and giving users the option of a more stable charge based on a prediction of charges into the future i.e. a hedge on future charge variations.
4. We would prefer there to be a short period of further debate before we chose between the different methodologies.

3. Governance arrangements and the options set out in annex 3

Overall we feel that a DCUSA governance model has merit providing users are properly represented (which we are not convinced is currently the case). This would

allow some items to be implemented without the need for full regulatory scrutiny and would use an existing governance process. We are less concerned about users proposing ill-founded proposals. Apart from these standing no chance of being approved, it is unlikely that many would be raised without some discussion with DNOs as to their practicability in the first place.

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 / discussed.

4. The proposed processes set out in annex 4

Noting that the Ofgem decision on the common methodology is scheduled to take place during September it would not appear that much time, if any, would be lost by allowing the DNOs an opportunity to express a common preference by the end of that month, as well as there to be further industry exploration of the relative merits over this period.

What would be extremely useful would be a small number of common scenarios that could have the different methodologies applied to them and exposed to Industry discussion so that attention could be focussed on the differing charges that could arise under the different methodologies for the same network cases. In order to arrive at the actual charges an assumption may have to be made about how the price control from 2010 would be split between generation and demand or indeed whether there would be such a split defined in the price control.

We assume that the "common methodology implementation working group" would be a subgroup of the Distribution Charging Methodology Forum.

Please let us know if you would like to discuss any aspects of this letter further.

Yours sincerely,

Gaynor Hartnell
Deputy Director