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By 13th August 2008

Dear Rachel / Nicholas

### **EDF's Proposed DUoS charging methodology**

The Renewable Energy Association is pleased to be able to offer its comments on the proposed changes to EDF's DUoS charging methodology. 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.

We note that on 22<sup>nd</sup> July you published a proposal that would mandate a common DUoS charging methodology for all DNOs, to be implemented from April 2010. The REA has consistently recommended that new charging methodologies be implemented from the start of the next price control period as it would potentially allow them to be implemented without the current distortion of separate revenue recoveries from demand and generation. Given this later consultation our pragmatic view is that irrespective of its merits it would not be in the interest of users of distribution networks to make a major change to the charging methodology in April 2009 when there may need to be a further change in April 2010 if a different methodology is chosen for common use by all the DNOs.

Having said that we do give below some views on certain aspects of the EDF's methodology. We have commented previously earlier this year and in 2007 to EDF consultations on proposed changes.

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

Yours sincerely

Gaynor Hartnell  
Deputy Director, REA

A handwritten signature in black ink, appearing to read 'Gaynor Hartnell', is written over a light blue rectangular background.

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### **1) Application of a power flow scaling factor**

- 1. Are EDF's proposals to scale all power flows appropriate? Is it clear why EDF propose to scale power flows using a factor of 0.6?**
- 2. Does the proposal provide an effective trade-off between cost-reflectivity and practicality for the charging methodology?**
- 3. Have EDF adequately considered alternative approaches to modelling for a highly loaded network? Are there alternatives that they have not considered?**

We think that the use of a 60% scaling of the power flows does not appear to have been convincingly justified from the information available. Certainly we would not agree that "without this scaling some of the charges would be extremely high" is a sufficient justification. Where assets are highly utilised and there is a low growth rate then an increment of change is likely to have a large effect on the timescale in which reinforcement is needed. That is an inherent feature of this type of methodology and adjusting for it amounts to questioning the basic cost reflectivity of the methodology. It may be that there is some justification in taking some measures to mitigate extremely high charges thrown up by the proposed methodology but this should be investigated further and within a framework of discussing whether the charges are actually cost-reflective.

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### **4) Further issues**

#### **LRIC pricing and the rate of load growth**

- 7. We ask for views on whether the use of zonal growth rates in EDF's charging methodology is appropriate?**

If one assumes that the basic methodology is cost-reflective, then the use of growth rates that vary by zone increases that cost-reflectivity.

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### **Revenue reconciliation**

- 9. We welcome views on whether the scaling approaches for demand and generation are appropriate?**

With respect to generation we do not agree that the current price control imposition of a discrete revenue allowance for generation is appropriate. Furthermore even accepting its current existence, splitting it between ehv and hv/lv connected generation on the basis of the metered generation connected to those parts of the network does not appear to be particularly cost-reflective as the costs imposed or saved may be quite different for generation connected at the different voltage levels.

- 13. Is the use of maximum levels of demand appropriate for calculating demand and the use of minimum levels of demand for generation charges?**

In principle one should use whatever is driving reinforcement at a particular time. If in fact for the overwhelming majority of cases it is demand at peak time and

generation at minimum demand times that drive reinforcement, then as a matter of pragmatism, the proposed treatment is satisfactory.

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### Calculation of HV/LV generator charges

#### **14. We welcome views on whether EDF's proposals for HV/LV generator charging are appropriate.**

The general approach that the generation cost / benefit is the negative of that for demand is appropriate. Obviously if the hv / lv demand charges were more cost-reflective the generation charges / benefits would also be more cost-reflective. The use of a factor of 0.5 for crediting the low voltage network costs is somewhat arbitrary. The use of a rather low coincidence factor for all non-half hourly metered generation is appropriate only if it can be demonstrated that this is a good approximation of the average actual coincidence achieved for such generation.

Obviously for this generation the most important issue remains whether the overall income has to be reconciled to a fixed amount to be collected from generation. In its May proposals EDF indicated that it felt it appropriate not to do this, as there would be an unnoticeable effect on demand charges and in the long run encouraging generation at this level should reduce costs. If this methodology is to be introduced under the current price control arrangements, an endorsement of this by Ofgem would send all the right signals to parties wanting to encourage generators to locate really close to demand.

#### **15. Do respondents consider it appropriate for a credit to be given against unit charges for National Grid exit charges?**

It is completely appropriate for a credit to be given against National Grid Exit charges as generation that runs at peak GSP demand times defers the need for GSP reinforcement (in a GSP where the peak flow is an import).

#### **20. Do respondents consider it appropriate to measure the impact of demand and generation on a consistent basis?**

As far as possible, yes.

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### Cost drivers

#### **21. We welcome views on whether it is appropriate for EDF's model to ignore fault level driven costs.**

The model is effectively load flow-based so it would not be easy to incorporate fault level issues. It may be appropriate therefore to deal with fault level related costs through another mechanism, for example through connection charges.