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Dear Ms Fletcher

Scottish Renewables response

Delivering the electricity distribution structure of charges project: decision on a common methodology for use of system charges from April 2010, consultation on the methodology to be applied across DNOs and consultation on governance arrangements

Many thanks for the opportunity to respond to Ofgem's paper on its structure of charges project.

Scottish Renewables is the trade body for the industry in Scotland and we represent over 250 members involved in the renewable energy sector, many of which have a direct interest in electricity network issues. Scottish Renewables also benefits from the support of its Grid & Regulation Work Group, made up from the members of Scottish Renewables.

Needless to say, if you have need for clarification on any of the issues we have raised please get in touch.

We welcome the Ofgem decision to seek a common charging methodology across all 14 distribution companies, along with suitable governance arrangements.

The options for a common methodology appear to be a Long Run Incremental Cost (LRIC) model, a variant thereof: LRIC with Incremental Cost Related Pricing (ICRP), or a Forward Cost Pricing (FCP) Model.

We have very serious concerns over the use of LRIC or an ICRP-based variant as the common methodology for distribution use of system charging. Applying long run marginal cost pricing will mean volatile and unpredictable year-on-year distribution use of system charges. This has been shown to be the case with transmission network use of system charges.

Predictable and stable charges are essential if renewable generation is to commit to connection to the distribution network. Uncertainty of prices will adversely impact a



generator's ability to raise capital. We believe a LRIC based common methodology will send entirely the wrong signals at a time when the drive is to encourage distributed generation. Furthermore, renewable energy sources tend by their very nature to be remote from centres of demand. Hence overly strong, volatile locational signals are inappropriate. What is required is predictable and stable tariffs, with stable long term cost signals.

Our understanding is that whilst the FCP methodology is also forward looking, it alleviates the worst concerns of long run marginal cost models by using network groups rather than nodes, by the inclusion of fault-level analysis and by providing forward cost messages over 10 years (based on publicly available data). For generation, the use of 'typical' sized generators based on publicly available data provides a reasonable balance between transparency, simplicity and cost reflectivity.

We agree with Ofgem's view that there is an inevitable tension between the high level objectives and for use of system charges, and that the development of a use of system charging methodology is a balancing act between these competing principles. In our view FCP provides a practical and transparent approach to generator charging that will improve cost reflectivity and promote economic efficiency whilst ensuring stability and predictability.

With regard to governance arrangements, we agree that common governance will be essential. Without it, individual network owners could make changes that undermine the common approach.

Yours sincerely

Jason Ormiston
Chief Executive
Scottish Renewables