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Dear Rachel

The Distribution Price Control Review (DPCR)

The Renewable Energy Association, having been fully engaged with the process of the review is pleased to comment on the initial proposals. As you are aware our members work on all types of renewable power and heat projects and we have long held the view that a well constructed price control mechanism is key to allowing Distribution Network Operators to facilitate and indeed attract renewable and other generation to connect to their networks and thus in general reduce the distance that this generation is from demand with consequent additional savings in losses and hence carbon emissions.

We are therefore extremely pleased that you have put the facilitation of a low carbon electricity network at the centre of your proposals.

Our comments relate primarily to matters effecting generation and we are therefore responding to a selection of the specific matters discussed and questions in the “incentives and obligations” paper.

In summary:

- We are very pleased that you are taking a number of steps that will encourage the connection of generation to distribution networks
- We would encourage you to be resolute in your desire to move to a single revenue pot from April 2010

- We support your moves to increase the effectiveness of the connection service, whether provided by DNOs or other parties
- We do not agree with your proposal to apply DUoS charges to generators connected prior to 2005

We now address some of the matters in your "incentives and obligations" paper in more detail.

Low Carbon Networks Fund

Question 1: Do you agree with our proposals for a new mechanism to encourage DNOs to develop their role in the low carbon economy?

Yes, something that could operate on a larger scale than the current RPZ scheme is appropriate at this stage of the transition to networks that facilitate a low carbon electricity system.

Question 2: In particular, do you agree with:

- the proposed size of the funding?
- the proposals for discretionary rewards?
- the two tier structure?
- the proposals to recover tier 2 costs over a five year period?
- the measures to mitigate DNO risk?

The size of the funding is material and ought to facilitate efforts to innovate to an appropriate extent. A discretionary fund of £100m should motivate DNO staff up to the most senior level to apply their minds to developing schemes to test / prove novel ideas for doing things in a smarter way. We agree in particular with your comment that a test which does not deliver the benefits that were hoped for may be just as valuable as one that does in the development of the networks of the future.

Question 5: Do you agree that the funding should be provided on a use it or lose it basis, and should the tier 2 funding be ramped over the period?

We agree that a use it or lose it basis is appropriate and that the tier 2 funding should be made available to a greater extent in the later periods of the period if it has not been utilised earlier.

Provision of Information to Distributed Generation

Question 1: Have we correctly captured the customer's information needs?

Yes. In particular we agree that as much information as possible should be made available on line so that preliminary screening of projects may be undertaken without the need to contact DNOs.

Question 2: Do you agree with the scope of proposed licence obligations?

Question 3: Do you agree with our proposal to request DNOs to commit to a strategy for information provision?

We are not sure that a "Strategy" as such is absolutely necessary. What is needed are specific obligations (or voluntary undertakings) to make specific information available in defined ways.

We still think that geographical hv network information, plus single line diagrams, must already be available in electronic forms and thus could be made available on line with little cost to the DNO and considerable benefit to those parties wanting to develop community scale and other schemes in the "between micro and a few MW" size range.

Distributed Generation Incentive

Question 1: Do you agree with our proposal to retain the DG incentive framework largely unchanged from DPCR4, and do you have any comments on the detail of our proposals?

There is a view that the current framework just about makes DNOs neutral to connecting typical schemes but no more. Greater incentives may therefore be appropriate although the context of the other elements of the proposed arrangements do need to be taken into account.

We fully support your wish to adopt a one pot approach from April 2010.

Use of system charging to pre-2005 connected Distributed Generation

Question 1: Do you agree with our proposal to terminate the blanket exemption from use of system charges for pre-2005 connected DG, with effect from 1 April 2010?

No.

The fact is that over time generators' access to the distribution system was charged for under different methodologies. Generators paid the required charge at the time. It is not discriminatory to let the dual arrangements continue to exist in parallel.

Taking house ownership as an example; there are two possibilities – renting or purchasing. It would not be discriminatory to allow those who have purchased their houses to continue not to pay rent, even if renting becomes the norm for all new properties in future.

In other words the fact that at different times generators' access to the distribution system was charged for under different methodologies is no more discriminatory than not insisting that a house owner pays rent even though he bought the house, whilst other parties who have not bought their houses do pay rent.

Irrespective of what written evidence as to rights may or may not be dug up as part of any attempt to discover what exists, all parties were absolutely clear at the time that they would pay deep entry charges i.e. all incremental costs incurred in connecting them to the system and accepting their output onto it, including the cost of maintaining those assets and in return for this they would not pay any further Distribution Charges (or receive any payments from the DNO).

Any attempt to enforce a change is likely to waste considerable time, resources and having dealt with the question of discrimination above, would not appear to serve any useful purpose.

Transmission Exit Charges Incentive

Question 1: Do you agree with the proposed hybrid approach for the regulatory treatment of transmission exit charges?

We have been lobbying for many years for transmission exit charges not to be a pass through item for DNOs and therefore welcome the move. We agree that a hybrid approach is appropriate and envisage that the main issues will be on how to set the allowed amount. With respect to this allowance should be made for the possibility that in some instances GSP connection requirements may be driven by export rather than import requirements.

Connections incentives and obligations

Broadly speaking we agree with your proposals to introduce guaranteed standards of service, allow DNOs a regulated margin on areas that could

potentially become fully competitive and then deregulate these areas if they do in fact become sufficiently subject to competition.

Innovation Funding Incentive (IFI)

Question 1: Do you agree with our proposal to retain IFI?

Yes.

Question 2: Do you agree with our proposal to focus IFI on technical R&D, whilst creating the new low carbon network fund for the trialling of low carbon initiatives on the networks?

This seems to be an entirely appropriate split.

Equalising Incentives and the information quality incentive

Without commenting on the detail we are completely in favour of all solutions to network issues being treated on an equal basis as regards DNO incentive. Thus whether there is additional investment in wires or a contract with generation or perhaps demand to solve a particular issue, the DNO should be given the incentive to choose on the basis of which is expected to be the overall most effective and efficient solution.

Please let me know if you would like to discuss any of these comments further.

Many thanks,

Gaynor Hartnell

Director of Policy, REA.