

Greencoat House  
Francis Street  
London, SW1P 1DH, UK

Rachel Fletcher,  
Ofgem

T +44 (0)20 7901 3000  
F +44 (0)20 7901 3001  
info@bwea.com  
www.bwea.com

17<sup>th</sup> September 2009

Dear Rachel,

**DPCR5 - Electricity Distribution Price Control Review; BWEA response**

BWEA is pleased to respond to your consultation on initial proposals for DPCR5. We have structured our response around the key areas on which you are inviting views.

**Chapter 2 on the outputs expected and behaviours to be encouraged from the DNOs, and the mechanisms used to achieve this**

The three themes of environment, customers and networks are, we believe, an appropriate focus for this price control period. BWEA welcomes the overall approach and is pleased to see that incentives are widening out from what has been a rather narrow focus on distribution of electricity and asset investment. We note that there are some important areas where ideas are not fully developed, and we would be pleased to assist in the further development of proposals.

There will naturally be a period of adjustment for the DNOs and Ofgem to a new incentive framework. Where possible the measures should be flexible enough to be adjusted as experiences require.

Some specific comments are as follows:

- Our membership will form the bulk of the distributed generator customer-base of DNOs. As such BWEA welcomes proposals which will improve the quality of service to this customer base. Experiences are mixed – sometimes our members report good services from DNOs, but anecdotally, the negative experiences probably outweigh the positives. There is significant room for improvement in the extent to which DNOs are customer-facing organisations.
- We understand that customer's experiences are not unrelated to the incentives on DNOs and their available resources. Ofgem's proposals for two-tiered output measures do seem to provide a bigger 'stick' for the DNOs to improve performance. We are keen for key output measures to encompass the experiences of generator customers in addition to the traditional focus on demand. BWEA

would also stress that these measures must be meaningful, and moreover, helpful. Additional reporting will come at a cost in both time and money, and so it does need to be proportionate. We also think that some more attractive 'carrots' would complement these measures – for instance through extra rewards for 'best practice', professional development schemes, secondments between industry sectors etc.

- BWEA notes that at present the main recourse for generators experiencing poor quality service from a DNO is via an Ofgem determination on a case-by-case basis. Typically this is designed to challenge a DNO's judgement on connection costs. This is really a last resort mechanism for a narrow set of circumstances. It would be very helpful to define a route by which generators could seek recourse before matters had escalated to a determination, and for issues that are more generally related to a poor quality of service. Existing customer complaint services are very demand-customer centric and are not geared up to cope with generator-related issues.
- Some additional points highlighted to us by members on DNO interactions are:
  - A lack of consistency between DNOs on connection offer-type services, pricing structures and acceptance timescales;
  - Difficulties with the Statement of Works process, resulting in connection dates being put back.
- We note the reduction for low loss investment upfront funding from £54m (in submitted business plans) to £11m (Ofgem's agreed spend) appears large (2.13). Reduced funding may encourage DNOs to search for the most cost effective low loss solutions, but good equipment may come with higher upfront costs.
- The proposed "Low Carbon Network Fund" is very welcome. BWEA would hope that it can contribute towards the development of a much needed 'smarter grid'. BWEA acknowledges that this is being driven in part by the need to integrate a higher share of variable distributed generation output, and we would be pleased to facilitate participation from our membership wherever possible.

BWEA would suggest some clear guidance for the fund, and some co-ordination with other similar measures to avoid any duplication but also to promote linkages. For instance, guidance could specify linkages with the smart meter roll-out<sup>1</sup>, or plans for electric vehicles, to ensure that work on smart grids does not become compartmentalised. Some 'smart grid' concepts are already under investigation (e.g. in other countries, such as the Danish EcoGrid project, which looks into a new smarter power system design, which is needed when 50% of Danish power will come from wind energy in Denmark<sup>2</sup>) and BWEA would encourage projects which build upon existing work.

- The proposals also note that "...DNOs will have to share learning..." This needs to be policed in a way that allows progress but which provides some scope for DNOs to safeguard commercial interests and gain a competitive edge through participation in the fund. Research, Development and Demonstration funding always has to strike this balance, and Ofgem, if it hasn't done so already, may wish to speak to organisations with an insight into finding a good balance in this regard.

---

<sup>1</sup> DECC, 2009, [Consultation on Smart Metering for Electricity and Gas](#)

<sup>2</sup> Danish Technological Institute, 2008, [EcoGrid](#)

- The connection of more distributed generation will undoubtedly require investment in new infrastructure. Although the proposals state that DNOs will be required to commit a set of network investment output measures in return for revenue, there is a danger of underinvestment by underestimating the volume of investment for network upgrades. The DPCR5 period (2010-2015) will be crucial for increasing the penetration of DG in support of climate change targets. BWEA is therefore supportive of incentives which can flex with the amount of DG coming forward – as opposed to waiting for the next price control period to catch up.
- One of the measures which Ofgem frames as encouraging DNOs to take up distributed generation is a “...more holistic view of network costs by exposing them to transmission network interface costs.” The devil is very much in the detail on this, which at the moment is conspicuous by its absence. Exposing DNOs to transmission-related costs could very easily hamper distributed generation where the DNO chose to avoid the cost (and the complication of addressing transmission issues) through an unwillingness to connect distributed generation. This is an area where DNOs show a very diverse appetite for meeting the challenge.

Furthermore, the disaggregation of distribution and transmission businesses is not always helpful insofar as it is not designed to promote the most efficient solution at the boundary. Simply shifting cost from one business to another may not improve matters. We believe this needs some careful thought, and to be considered in the round with the yet-to-be-published proposals on transmission interface charges (and credits) for distributed generators.

- Finally, BWEA notes that DECC is currently consulting on the introduction of new Feed-in Tariffs (FITs) for generators up to 5MW. This new market support mechanism is aimed at the promotion of micro and small-scale generation for domestic, community and small business customers. Technically, this will be a challenge for the connection and operation parts of the DNO business. Moreover, it will create a new and growing customer base for DNOs, customers who will be looking for easy-to-understand tariff structures and more generally an accessible DNO. Whilst Ofgem does mention significant growth in household generation (2.5), BWEA does not perceive that Ofgem or the DNOs have fully grasped the implications of the new FITs. Again, BWEA would be happy to assist.

### **Chapters 3 and 4 on the revenues DNOs are allowed to collect from customers over the price control period, and risk and reward**

BWEA does not have the time and resources to familiarise itself with the individual settlements for each DNO. We are therefore limiting our comments here to some high level principles.

BWEA notes that Ofgem has substantially reduced the DNOs’ opening revenue allowance predictions. We will be monitoring progress of this negotiation process and are supportive of DNO requests for revenue sufficient for them to improve their quality of service, connect distributed generators and invest in the infrastructure required for a low carbon future.

BWEA agrees that DNOs should be rewarded for good performance and should not benefit from poor performance. There should be an appropriate balance of risk versus reward which of course is going to be subject to some negotiation. This is largely a commercial matter for the DNOs and we do not propose to comment on what this balance should be in pounds and pence. However, BWEA believes that the definition of

what behaviours are rewarded and what are penalised is crucial. This is largely covered in the previous Chapter 2 comments.

Because of substantial uncertainties in a number of areas, BWEA supports flexibility in the price control parameters. BWEA appreciates that there is a difficult balance between regulatory oversight, the resources this implies for Ofgem, and the need for settlements to be as adaptable as possible. Good working relationships between the DNOs and Ofgem will be helpful in this respect.

BWEA would place a high emphasis on adjusting revenue allowances according to DNO performance. From the perspective of our membership, a smooth connection process, efficient costs for connection and use of the system, good relationships with DNOs and a feeling that they are working with and share the aims of distributed generators, would all contribute to cost and time savings for our membership. Hence it seems appropriate that these attributes should be rewarded. We believe that a key measure of the success of DPCR5 will be the effectiveness of DNOs' incentives in this regard.

### **Use of system charging methodologies**

Use of system charging methodologies are covered in the Introduction to the core proposals, but we are unclear on where they sit in the context of the core proposals. In any event, BWEA notes the outcome of Ofgem's structure of distribution charges project. It has been challenging for many users to keep abreast of these changes and we welcome Steve Smith's open letter highlighting the forthcoming changes in charges.

BWEA is concerned by the potential magnitude of change. We believe there is a need for a concerted effort from DNOs and/or Ofgem to reach out to the generator community and explain the impact on their business – specifically the nature and scale of changes in tariffs. BWEA considers this a joint responsibility between the DNOs and Ofgem – the changes were initiated by Ofgem and the process has been drawn out because of some very strong differences of opinion on EHV charging.

Certain DNOs cannot be held solely to account for the protracted nature of this debate just by virtue of disagreeing with an ideological stance on charging taken by Ofgem. On balance BWEA can see qualitative pros and cons of both EHV charging methodologies. The single most pressing issue now for our membership is to understand what the charges will be, and to have some comfort that they will be reasonably predictable and stable. EHV-connected generators are currently in the position where they have very little idea where their charges will be come April 2011 and this makes financial planning extremely difficult, if not impossible.

Furthermore, BWEA is concerned by Ofgem's statements that it will scrutinise DNOs adopting the FCP methodology much more closely than those adopting LRIC. We would expect an equal level of scrutiny for any new methodology. BWEA is worried that Ofgem's views on LRIC versus FCP are clouding its judgement and taking precedence over any evidence in support of one or the other methodology.

BWEA does feel, as previously discussed, that the DNOs could improve their communication lines with customers, and the forthcoming changes in charges is a good example of this. BWEA is aware of stakeholder seminars held by at least one DNO, and we would encourage similar and new initiatives in the future.

Finally, some BWEA members have expressed strong concerns on the proposal to migrate pre-2005 deep connection offers to the Use of System charging regime. This

creates significant uncertainty for terms that were signed up to in the expectation that they would prevail. BWEA objects to this proposal in the strongest terms.

BWEA hopes you find these comments useful. If you wish to discuss any aspect of this response, please don't hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized initial 'G' followed by a series of loops and a long horizontal stroke extending to the right.

Dr Gordon Edge, Director of Economics & Markets, BWEA