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Dear Ynon,

Distribution Common Charging Policy at lower voltages

The REA, having been fully engaged with the structure of distribution charges project for several years, is pleased to comment on the proposed common charging methodology for use at lv and hv. As you are aware our members work on all types of renewable power and heat projects and we have long held the view that cost reflective prices for using the distribution network is key to attracting well located renewable generation projects and avoiding pressure for uneconomic private wire networks in situations where a perfectly good distribution network already exists.

Our comments relate primarily to matters effecting generation and our overall view is that whereas we may have a preference for something different from what is proposed, the proposals are in general an improvement on the status quo and may be further improved via the open governance structure. This is with the notable exception of the proposed treatment of generators connected before 2005. On this we are maintaining our principled opposition to this regardless of the fact that the great majority of these charges may turn out to be negative.

We now address some of the maters that affect generators in more detail.

Non use of F factor for generator charging

We agree with the proposal to substitute the units generated divided by the hours in the year for the F factor, multiplied by the generation capacity. We commented previously that categorising particular generation types by a specific F factor would be an area of contention and the proposed methodology is a pragmatic way to avoid this, whilst preserving the same degree of cost reflectivity.

Generator Charging in generator-dominated areas

We feel that for a non-locational average charging method, it is correct to use the average situation which is that currently networks are demand-dominated. Whilst it may be the case that a very few networks are generator-dominated (and we acknowledge that it is possible that the number of these increase in the future) to charge generators differently in these areas without also giving differential credit to those generators that provided more than the average benefit to the network would be a one-sided application of cost-reflective charging.

We therefore maintain that if more location-specific charging is not to be adopted more generally, the general principle that whilst distribution networks are generally demand-dominated generators should receive a credit, should be maintained rather than cherry picking particular bits of network where this is not the case to make an exception. We note that generators probably suffer on balance by receiving no credit for the voltage level to which they are connected as they probably defer expenditure at this level more often than the precipitate it. It is inconsistent to put up with this averaging, when it is clearly against the average cost causation of generators, whilst being concerned about the few parts of a distribution network that may be generator-dominated.

Charging of pre April 2005 connected generators

We remain opposed to this. Leaving aside the issue of whether DNOs can legally apply charges to many pre-2005 connected generators, the conditions under which generators that connected at that time were well known and agreed by all concerned parties. Generators paid the full cost of any reinforcements required to accommodate them, including the capitalised value of ongoing operation and maintenance of those assets. Where no reinforcement was required in many cases the generator deferred the need for reinforcement but was given no credit for this. There was a clear understanding that no further network related charges would be payable. To try to unpick this no would be unnecessarily time consuming, contentious, serve little useful purpose and in many cases be of questionable legality.

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

Many thanks,

Gaynor Hartnell

Director of Policy, REA.