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Dear Rachel,

Consultation on Western Power Distribution's (WPD) modification proposal 016 to introduce changes to its EHV charging methodology

Thank you for giving us the opportunity to comment on this important consultation. This response has been developed from within the AEP membership and is supported by the British Wind Energy Association. The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable sources of energy.

We have significant concerns over WPD's proposal and the AEP also has more general concerns regarding the introduction of GDUoS charges for all pre-2005 EHV connected generation.

In particular, we believe that the proposal and the principle of charging pre- 2005 EHV connected plant:

- fails to respect property rights held by generators that connected prior to April 2005 (and paid large fees including a capitalised O&M costs in lieu of ongoing charges);
- is not cost reflective and does not include adequate compensation provisions;
- is likely to lead to a material distortion in competition in the generation market, given the unequal treatment of pre-2005 generators from 1 April 2010 that is emerging across DNOs and an enduring distortion between transmission and distribution connected generators;
- should, as a minimum, be subject to a full and detailed impact assessment (recognising the implications of this proposal not just to connectees in WPD's region, but across the entire GB DNO network).

Pre-2005 connected generators

We are opposed to the implementation of GDUoS charges on pre-2005 EHV connected generation. AEP members made specific siting decisions on future build viability by choosing to pay an up-front charge to reflect the use of the system rather than paying an annual charge. These large upfront costs were paid at time of connection in the clear expectation that there would be no ongoing additional charges. As recently as September 2009, WPD acknowledged as much, setting out in its response to Ofgem's Initial Proposals for DPCR5 that:

"...the expectation at the time most pre-2005 generators connected was that they would never pay GDUoS charges¹..."

The AEP has concerns regarding the robustness of the proposed methodology for pre-2005 generators. The connections were designed and sized for the connecting generator with very limited spare capacity. Therefore even small increments of growth are likely to trigger reinforcement which is likely to create significant volatility and produce large non cost reflective charges.

In its proposed methodology WPD has proposed addressing the upfront charges that were paid (in part) through specific adaptations to its methodology (most notably by removing assets most clearly associated with pre-2005 generators). However, this is inadequate given the expectation that all costs incurred by networks in allowing pre-2005 generators to export power onto the network were included in the initial upfront charge (including capitalised O&M charges).

The AEP does not believe this amendment provides an adequate level of recompense. The only way to adequately reflect the property rights enjoyed is to ensure compensation is comparable to the prevailing GDUoS charge. As a minimum the charge should reflect the amount that generators have overpaid under the current deep charging regime by paying for a number of years' access up front which subsequently has not been fully delivered. We note that the WPD proposal does not even refund in all cases the full contribution of upfront connection costs as explained in footnote 17 of the consultation.

We believe that, if accepted, WPD's proposal would set a damaging precedent, significantly increasing the level of regulatory risk in the GB market. This could have serious implications – particularly at a time when security of supply concerns are becoming increasingly important and investment in new plant will be required.

Distortion to competition

It is clear that the level of charges being proposed by WPD is highly material. We also understand that charges are being proposed by other DNOs for pre-2005 EHV-connected generation from 1 April 2010, but that the methodologies being applied by these DNOs vary significantly.

Setting aside the issue of the legality of the proposed charges, it is unclear whether the unequal treatment of pre-2005 generation from 1 April 2010 is driven by underlying differences in the costs these plant impose on the networks to which they are connected, or whether these are spurious differences resulting from inconsistent choice of methodologies. If the latter, then there is a strong likelihood that the generation market will face a material distortion.

¹ See page 22 of Part 3 of WPD's response to Ofgem's DPCR5 Initial Proposals document, on the Ofgem website.

The AEP would also like you to note that the introduction of interim charges from 1 April 2010 and potentially very different charges based on an enduring regime from 1 April 2011 will result in (further) regulatory uncertainty for pre-2005 connected generators.

Impact assessment

We believe that the proposal to levy charges on pre-2005 generators – not just in the context of WPD's proposal, but across the network as a whole – has not been properly assessed. Although the issue was discussed in the context of DPCR5, the materiality of the changes has only come to light in recent months. While we now have better visibility of the costs of this proposal, we still have no understanding of the benefits to customers of such a change.

Conclusion

We have fundamental concerns that DNOs are introducing charges to pre-2005 EHV-connected generation in a hurried and inconsistent way. We believe that this could lead to unforeseen and potentially material distortions to the generation market.

We also believe the implementation of the charges fundamentally ignores the property rights enjoyed by AEP members. Therefore we suggest that Ofgem vetoes WPD's proposal, and extends the current exemption to allow industry to more thoroughly consult on the proposal to apply charges to pre-2005 generation as part of the ENA's consultation process.

As a minimum, we would ask Ofgem to undertake an impact assessment on the changes proposed by WPD, and subsequent proposals as they emerge to understand in more detail – and have the opportunity to comment on – the costs and benefits of the proposal. In particular, we believe that other large embedded generation units face similar issues to those faced in WPD's region, and so the issue requires wider consideration. We would be happy to work with Ofgem to develop a more robust and enduring methodology.

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

Yours sincerely,

By email



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