Welsh Power Group Limited
Ground Floor, Tuscan House
5 Beck Court
Cardiff Gate Business Park
Cardiff CF23 8RP
Tel: +44 (0)2920 547200
Fax: +44 (0)2920 549896
info@welshpower.com

13 July 2010

Mr Chris Chow
Senior Policy Analyst
Distribution
Ofgem
9 Millbank
London
SW1P 3GE

Dear Mr Chow

Electricity distribution charging boundary between higher and lower voltages

Welsh Power Group (WPG) is a privately-owned energy company with a strong track-record in development, in both conventional and renewable energy. In August 2009 Welsh Power submitted an application to develop Wyre Power, an 850MW CCGT (combined-cycle gas turbine) power plant near Fleetwood, Lancashire, with an investment of some £600 million. In January 2009 the Company commenced the development of a 49.9MW biomass plant at Newport Docks through its wholly owned subsidiary Nevis Power Limited. We also own and operate an OCGT, Leven Power, on a STOR contract to NGC.

Welsh Power has been concentrating its efforts on developing smaller scale, embedded generation and our business is therefore significantly impacted by changes to the distribution networks' level and structure of charges. We have been concerned by the level of charges that the DNOs require for connecting new plant, the treatment of historic connections and the structure of charges as well.

While we are generally supportive of a more equitable, transparent and consistent approach to connection and ongoing charges, we are concerned about the differences being proposed under the ENAs charging consultation document as well this boundary paper. We do not believe that having two different changing methodologies (LRIC or FCP) can be cost reflective when they give such differing results for the same plant. We also do not believe that changing the boundaries for charging different plants is appropriate for incumbent plants whose business models were based on charging levels historically applied. Changing the level of charges as significantly, as we believe these combined proposals may, not only alters the economics of a plant, but changes the relative costs of generation between competing plants.

Welsh Power

Welsh Power is concerned by the very short time scale for responding to this document, given the materiality of the proposed changes to some parties, and by some of the language used in this document. For example, reference to "an enduring solution" suggests that further changes may be occurring in the medium term. As developers we need some certainty around these charging structures. Ofgem also talks about "gaming" the boundaries. If these charges are cost reflective and a generator/customer moves his connection to get a lower charge, we would expect Ofgem and the DNO to welcome a party responding to the economic signals being given. Ofgem also suggest customers will be confused if they are subject to CDCM at one connection and EDCM at another. In reality customers are concerned more with the level of charges than the methodology behind them. They also want stable and predictable charges, not changes that will create a shock to the market.

Our overall impression is that Ofgem itself is not convinced a cost reflective regime is being created and it plans to further tinker with the regime in future. Delaying implementation until further work has been done would appear more appropriate than pushing ahead with changes that the market, the customers and the regulator are uncomfortable with.

Of the options presented in the paper, we favour an optional approach for existing customers, with a clear boundary then drawn (option 3). This is a pragmatic way to deal with the incumbent connectees, many of whom seem to be facing significant changes in charges that will add to their costs. This could be structured as an interim solution, depending on what further changes Ofgem has in mind (as in option 5). If Ofgem can set the framework going forward and allow legacy connectees to fit into that framework as they see fit the negative impacts will be limited, but the signals set out for future connectees to respond to.

Welsh Power has no problem with the concept that incumbent players are treated differently to new players as the regime when you enter the market is one that you build your business around. The investment decisions for existing sites should not be undermined by what look like changes to charges that are not obviously improving cost reflectivity in all cases. Ofgem point out that having similar sites with some charged EDCM and others CDCM looks potentially discriminatory, but the same is true of customers charged EDCM under LRIC and those charged under FCP. This simply serves to illustrate that the changes seem to be being rushed through rather than developed in a more open and collaborative environment.

We do not believe that there is enough detail in the Ofgem or ENA consultations to fully assess the impact on our own business, but we could not absorb a change that created a significant additional cost on our eldest plant. At a time when Ofgem and DECC say they are concerned about capacity such changes would not appear prudent if they lead to the withdrawal of plant.

If you would like to discuss any of the issues raised in this letter please do not hesitate to contact me.

Yours sincerely

Alex Lambie
Chief Executive