



Charles House
5-11 Regent Street
London
SW1Y 4LR
Tel: 020 7930 9390
Fax: 020 7930 9391
enquiries@aepuk.com
accounts@aepuk.com
www.aepuk.com

Nicholas Rubin
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

13th August 2010

Dear Nicholas

Charges for pre-2005 Distributed Generators' use of Distribution Network Operators' (DNOs') distribution systems Ofgem Consultation 88/10

The Association of Electricity Producers¹, together with Renewable UK, wrote to you in February 2010 outlining concerns we had regarding Western Power Distribution's proposals in respect of changes to its EHV charging methodology for pre 2005 Distribution Connected Generation. Since then a number of our members participated in an Energy Networks Association workshop on this issue held 6th May 2010. The Association of Electricity Producers, Renewable UK and the Renewable Energy Association wrote to you in July 2010 raising issues about the proposed interim charging changes and reiterating the concerns we raised with you in our February letter

Following the withdrawal of the interim proposals Ofgem published its 21st July 2010 consultation on Charges for pre-2005 Distributed Generators' use of Distribution Network Operators distribution systems 88/10. The AEP organised a meeting of its members to consider a response to the consultation and subsequently discussed our proposals with Renewable UK, the Renewable Energy Association and the

¹ The Association of Electricity Producers 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. RenewableUK (formerly the British Wind Energy Association (BWEA)) is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with 630 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. The REA is the industry association representing renewable energy producers. It is the largest renewable energy trade association in the UK and covers heat, transport fuels and biomethane injection as well as all forms of electricity generation. With over 100 members active across a range of technologies and markets the Combined Heat and Power Association (CHPA) is the leading advocate of an integrated approach to delivering low carbon and renewable energy services using combined heat and power and district heating.

Combined Heat and Power Association. We wish to make you aware of the outcome of our deliberations

Our Preferred Approach

Association members believe that Ofgem should allow Distribution Network Operators and their Distribution Connected Generators to recognise and abide by the provisions within their existing bilaterally agreed contracts. The variability of the *outputs from the* different methodologies proposed in the consultation poses a significant commercial risk for generators *as they will be unable to compete on a level playing field*. However, should any of the 270 generators identified by Ofgem as being affected by the proposals, wish to transfer to the proposed methodology then, they should be given the option to do so. This would be a one-way move which could not be reversed should charges change in the future.

Those pre April 2005 distribution connected generators that do not opt to pay DUoS charges would continue under their existing contractual arrangements for X years from the date of their connection, the value of X being set as follows:

1. If the existing agreement stipulates duration this should obviously be used to define the term of the contractual right;
2. If 1 does not apply then, apart from special circumstances listed in 3 below, X should be determined from the typical life of distribution network assets; or
3. In the case where generation plants are expected to have a life that exceeds the typical life of distribution assets X would be set from that. For example, when building a hydro plant, a prospective builder is required by the Reservoirs Act to ensure that the installed pipeline has a 50 to 60 year lifespan. The proposal would be to deal with each such site on a case by case basis.

In this way all generators would see the effect of DUoS charges around the period when they may be considering closure, thus having the desired economic affect at the time when it is important.

Rationale

Regulatory Good Practice should seek to ensure that the time and expenditure incurred in resolving a suspected defect or anomaly is proportionate. This is clearly not being accomplished with regard to this matter. Ofgem, Distribution Network Operators and affected Generators are all spending significant time, resource and finance on this issue which is disproportionate to the alleged benefit this new approach is aiming to deliver.

If Ofgem adopts the proposed approach to grandfather rights then this removes a large amount of effort which will be required to work out appropriate compensation, thus avoiding the debate about where the additional Distribution Network Operator funding comes from and the subsequent raft of appeals which are bound to follow.

Ofgem Monitoring and Management

In order to ensure that the 270 identified generation sites are being treated appropriately, Ofgem should ensure that a register is created to record the treatment of all affected sites. This could be created and maintained by Ofgem itself or another

appropriate body e.g. the Energy Networks Association. As a generator moves closer to the expiry date of any grandfathered rights, the register would be used to ensure that Ofgem is informed when a dialogue between a Distribution Network Operators, and their specific distribution connected generator, has begun and been subsequently concluded. The register would of course be confidential as it would hold records of a commercially sensitive nature.

Over time, as generators' grandfathered rights reach their expiry date, when the affected plant then moves over to its specific Distribution Network Operator's Generation Distribution Use of System charge, the register would reduce in size.

Should you have any questions please contact Barbara Vest, Head of Electricity Trading Association of Electricity producers on 07736 197 020, Guy Nicholson Head of Grid RenewableUK 07595 650 606, Tim Russell, the REA's Electricity Transmission and Distribution expert, on 07715 119 841 or Graham Meeks, Director, 020 7828 4077.

Yours sincerely,

By Email



David Porter
Chief Executive
Association of Electricity Producers



Gaynor Hartnell
Chief Executive
Renewable Energy Association



Guy Nicholson
Head of Grid



Graham Meeks
Director
CHPA