

Your ref

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Our Ref

Date
20th August 2010

Contact / Extension

Jim McOmish
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Dear Nicholas,

Charges for pre-2005 Distributed Generators' use of DNOs' distribution systems

I am responding on behalf of SP Distribution Ltd and SP Manweb plc, the licensed distribution businesses serving the south of Scotland, Merseyside and north Wales to the recent consultation by Ofgem.

The main observations which we would like to make in relation to charges for pre-2005 connected DG are set out below;

Bundled approach for O&M charges

We believe that contributions to capitalised O&M should be considered separately from other connections charges (which tend to be customer contributions covering the capital costs of installed assets).

We see merit in a bundled approach for O&M charges and unbundled approach being adopted for other charges. Our main thoughts for applying a different approach between these charges are as follows;

- a) These O&M charges are a contribution to future costs, cover a defined period and relate directly to a specific element of cost that is also distinct within the EDCM model (both based on the value of sole use assets) and therefore it can easily and transparently be included or not.
- b) This will be a transitional difference and pre 2005 generators should attract this component of the EDCM charge once their capitalised O&M period has expired.
- c) A bundled approach to O&M would not affect the locational element of the charges. It is unclear to us how the locational price signal would be diluted by bundling this component

Funding of compensation

It is not clear that the logging up mechanism in the DPCR5 final proposals intended to deal with compensation of O&M, or other compensation to generators, but rather is targeted specifically at compensation of capital contributions to assets. For example, quoting from the relevant sections in the DPCR5 final proposals, Incentives and

Obligations, Section 4.9 (I have highlighted in bold one example of the wording which leads us to our conclusion).

“At DPCR6 we will undertake an efficiency assessment in order to calculate the compensation allowance. We will then provide funding for this allowance through:

- an adjustment to their regulatory asset value (RAV) to reflect **the remaining life of the assets**, and
- revenues to compensate for depreciation and return accrued over DPCR5 and the cost of the delay in their payment.”

The scale of refunds resulting from capital contributions to assets is likely to be a small proportion of the probable refunds arising from capitalised O&M, which could be in excess of £10M for SPEN. Including capitalised O&M and other compensation into the logging up mechanism, which appears was originally intended for lower (in terms of overall materiality) refunds of contributions to assets, creates a new cost for DNOs during DPCR5 that may not have been considered at the time of the DPCR5 final proposals. Consequently it may be more appropriate for such compensation to be dealt with through a reopener mechanism if an unbundled approach is adopted.

A fully unbundled approach (including O&M) is likely to impact some DNOs disproportionately, particularly affecting those companies who have delivered significant volumes of renewable generator connections during DPCR4 and during DPCR5 (where these were contracted on DPCR4 terms).

EHV demand customers

We remain concerned that refunds to EHV demand customers who have also paid capitalised O&M have not been considered either by consultation or by any regulatory mechanisms. Whilst these are small in volume and have a relatively smaller capitalised O&M payment than the pre 2005 DG portfolio, the unbundled proposals appear to discriminate against these customers. This can easily be resolved by allowing the O&M element of the EDCM charges to be bundled for both demand and generation customers and by setting the MEAV driving the O&M component of these customers EDCM charges to £0 for the appropriate period.

Yours sincerely,

by e-mail

Jim McOmish
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Regulation & Commercial