

Avonbank
Feeder Road
Bristol
BS2 0TB

Telephone 0117 9332000
Fax 0117 9332001

Nicholas Rubin
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

<i>Our Ref</i>	<i>Your Ref</i>	<i>Direct Line</i>	<i>Date</i>
	88/10		16 th August 2010

Dear Nicholas

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

Please find attached the response from Western Power Distribution to the above consultation document.

If you have any queries with regard to this response, please do not hesitate to contact me.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Chapter 2 - Existing pre-2005 DG contracts

Question 1: We invite respondents to provide further information they have on contractual arrangements and the extent to which the descriptions in this chapter fit their own circumstances

Your summary reflects the range of contracts we have.

Question 2: Do respondents agree with our understanding of the arrangements affecting CVA and SVA customers?

Yes.

Question 3: Do you consider our summary of contractual issues is accurate and complete?

Yes.

Chapter 3 - Compensation and use of system charges: bundled and unbundled

Question 1: Have we identified the relevant considerations that influence the decision whether to adopt a bundled or unbundled approach?

Yes.

Question 2: Do you agree with our minded to position to adopt an unbundled approach for the EDCM?

Yes – provided agreement can be reached on recovery of compensation payments made.

Chapter 4 - Principles for assessing the efficiency of any compensation paid

Question 1: We welcome views on the criteria that should be applied to determine when it is appropriate to pay compensation

Introducing UoS charges is likely to result in a degree of double charging as certain costs were recovered under the deep connection charge policy that applied pre April 2005 which do not (and did not) apply to generators under post April 2005 arrangements. As those costs

now form part of the ongoing UoS charges, pre April 2005 generators would potentially be paying such costs for a second time – this is in relation to the O&M uplift and the reinforcement costs – and compensation may therefore be appropriate to prevent this.

In relation to the O&M uplift, generators under pre April 2005 arrangements generally paid a lump sum intended to cover the operations and maintenance overheads in relation to the incremental connection equipment. Whilst this was paid as an upfront charge, (in contrast to charges for sole use assets and reinforcement costs) it covered costs that are incurred on an ongoing basis to allow the generator to remain to be connected rather than one off costs associated with the connection of the generator. For this aspect of the costs, applying the post-April 2005 use of system charges to generators connected under pre April 2005 arrangements would result in double charging for costs that are incurred on an ongoing basis. For this reason it is appropriate to refund the unexpired proportion of capitalised O&M charges.

In relation to reinforcement costs, the issue is whether the different contributions that generators have made to such costs constitutes discrimination, i.e. whether this element needs to be taken account of when making UoS charges of EHV generators connected under pre April 2005 arrangements. Although different treatment has occurred (there being a difference in the extent of the charging), this does not involve discrimination contrary to SLC 19.1 and 19.2, since the charging structure in place at any time treats all generators connected at that time the same. The principle of non discrimination does not require the same charging structure to remain in place indefinitely, so that any new generator connected must be the same as any previous generator who has been connected, since this would unduly restrict the charging structure and prevent appropriate policy changes being made. Hence, the fact that connection charges in relation to reinforcement costs were levied on a different basis under pre and post April 2005 arrangements does not constitute discrimination. In contrast to the O&M uplift, the reinforcement costs were one-off cost of connection rather than an ongoing cost of remaining connected and for this reason it is not appropriate to refund generators connected under pre April 2005 arrangements for this element.

Question 2: When it is appropriate what method(s) should be used to calculate the level of compensation?

An appropriate method of calculating the level of compensation was shown in our modification request 019.

Question 3: Do respondents consider compensation to be appropriate in cases where contracts allow for a variation when charging arrangements change? If so, why? Our understanding is that this is the case for all SVA generators and some CVA connected generators

If generators paid a capitalised O&M then refund of any unexpired proportion is appropriate for all generators to prevent double charging.

Question 4: Where contracts are not explicit that UoS charges are included within the terms of the connection, do pre-2005 DG customers have any rights to compensation based on the value of expected UoS charges? What would be the justification for this?

No.

Question 5: We welcome views from respondents as to whether the same compensation principles should apply to HV/LV customers as to EHV customers and whether the same contractual and fairness issues apply.

Yes, where this relates to unexpired capitalised O&M.

Question 6: Are there any other proposals or relevant issues that we have not identified in this consultation that you think should inform our policy development going forward?

No.

Question 7: We would welcome evidence from respondents that would allow Ofgem to assess the potential magnitude of the compensation that might be due under the different approaches that might be adopted to assessing compensation.

We provided Ofgem with information estimating the likely value of refunding unexpired capitalised O&M as part of information supporting our modification application 019.

Question 8: We welcome views and evidence on the approach that should be adopted in the case of special contracts that grant rights in excess of standard rights and whether any compensation due should all be funded by customers through the price control.

Compensation due should be funded via price controls. Other arrangements will encourage protracted legal cases and multiple determinations.

Question 9: We invite any other views and comments about users' contracts that may help us to develop our proposals.

None.