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Anthony Mungall
Ofgem
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Dear Anthony,

Response to Small Generator Discount consultation

Rio Tinto Alcan welcomes the opportunity to respond to Ofgem's consultation on the discount for small transmission connected generators from 31 March 2011.

Rio Tinto Alcan undertakes aluminium smelting activities at industrial sites connected to the Northern Electric Distribution Ltd (NEDL) and Scottish Hydro-Electric Distribution Ltd (SHEDL) networks. We have only a tiny and passive role in the electricity market and we are not signatories to the main industry commercial codes, and although we have certain derogations, we abide by the Distribution and Grid Codes in technical matters and with respect to data submissions as required.

Aluminium smelting is an electricity intensive process and our primary concern is the security of electricity supply to our smelters. In order to ensure security of electricity supplies, Rio Tinto Alcan produces its own electricity from on-site coal and hydro assets, whilst also having third party electricity supplies. On-site output is largely absorbed by the smelters, with the remainder exported onto the local distribution system.

The sites have a long history. For example, the Lynemouth site dates from around 1970, whilst Kinlochleven has been operational for 100 years. Investment in the on-site assets and supporting infrastructure was made under a different regulatory and charging environment from that which exists today. Over time, however, the regulatory arrangements and Rio Tinto Alcan's exposure to them have changed. The relevance of transmission charging arrangements for us has evolved and may continue to change going forward. In this context, Project TransmiT is a key issue for Rio Tinto Alcan and we submitted a response to the call for evidence earlier this month.

In our TransmiT response we flagged our concerns at the level of regulatory uncertainty affecting the future network charging arrangements for our sites. This uncertainty relates to transmission and distribution charging alike, as both are in a period of upheaval. We do not repeat the specific issues here, but we do take the opportunity to reiterate that the degree of ongoing change to the charging arrangements risks severely compromising our ability to make informed business decisions regarding low carbon investments on our sites.

As licence exempt embedded sites, we are not currently exposed to generator TNUoS charges and the small generator discount arrangements do not affect us directly as a result. However, the principles attached to the issue are important to us. The discount was introduced with BETTA to improve the consistency of treatment between 132kV connected small generators in Scotland (where classed as transmission connected) and in England and Wales (where classed as distribution connected). The intent was replicate for small generators connected at 132kV in Scotland the embedded benefits that an equivalent generator in England and Wales can obtain.

As the current discount is due to expire next year, the current consultation considers options going forward. Options presented include:

- extend discount using current methodology to calculate value;
- extend discount using an alternative methodology to calculate value; or
- allow discount arrangements to expire.

Ofgem's recommended position is to extend the discount, calculated using the current methodology, to apply until 31 March 2103. We are supportive of this option as a means by which to enhance consistency between the relevant classes of generator. However, we have concerns regarding the implications of the letter for future transmission charging arrangements for embedded sites.

We note that in the assessment of its preferred option, Ofgem flags that 'it does not deal with the well documented concerns on the cost-reflectivity of the current DG embedded benefits'. This comment and its potential implications are of great concern for us. We do not agree that the current arrangements fail to deliver cost-reflectivity. Furthermore, we believe that this is the consensus view amongst the majority of industry participants. This is borne out by experience from the Transmission Access for Distributed Generation (TADG) process. We were members of the TADG group that discussed these issues in 2006-07. From these discussions, it is our recollection that the majority of the TADG members were supportive of 'no change'. If some form of change was to be progressed, a net model was preferred relative to a gross model. However, maintenance of the status quo was the preferred option. It is important that this balance of views is accurately reflected in future consideration of these issues, particularly as they are expected to be included within the scope of Project TransmiT.

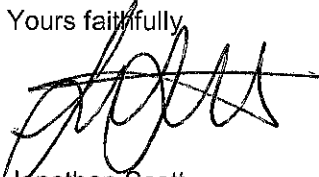
The importance of distributed generation as a source of renewable generation must also be remembered. Many renewable projects are connected at distribution level. Cumulatively, these sites have the potential to make a significant contribution to renewable and low carbon targets. The policy environment has changed since the initiation of the TADG process – environmental and low carbon targets are much more prominent now than they were even five years ago. The contribution of distributed generation towards these targets should not be compromised by regulatory objectives that are, in our view, inappropriate and out of kilter with the prevailing policy environment.

We agree that charging arrangements should avoid undue discrimination, wherever possible. However, this does not mean that all parties should be treated in exactly the same manner. Where there are demonstrable differences between parties, then different treatment can be justified. Indeed, applying common arrangements when the case for differential treatment is clear can itself constitute undue discrimination. This must be remembered during future consideration of transmission charging for embedded sites. It is also important to reflect the fact that such sites face exposure to Distribution Use of System charges during considerations of relative exposure of parties to network charges.

While the scope is still to be finalised, it seems apparent that TransmiT will focus heavily upon generator TNUoS charges, including the treatment of distributed generation. It is essential that consideration of this issue is conducted in the context of the current policy environment and is backed by robust, up to date analysis.

We are keen to work with Ofgem and the energy industry in developing appropriate arrangements for transmission charging.

Yours faithfully,



Jonathan Scott
Power Commercial Director