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17<sup>th</sup> June 2011,

**Consultation on proposed guidance for funding reimbursements to pre-2005 DGs through DNOs' price controls.**

Dear Nicholas,

1. We welcome the opportunity to comment on this proposed guidance.
2. We have five large generation stations that are affected by these proposals (at Barry, Brigg, King's Lynn, Peterborough and Roosecote). Each of these stations connected to their respective distribution networks prior to 2005, and paid large upfront fees to:
  - connect and use the network;
  - facilitate the operation and maintenance (O&M) of DNO owned assets; and
  - have the right to export power onto the distribution network up to a specific maximum export capacity (in accordance with our connection and use of system agreements).
3. As we have stated in previous responses relating to this subject, we are firmly of the opinion that the agreements we have in place at each of our stations provide ongoing rights to export power onto the relevant distribution networks.
4. Contracts were put in place for each of these stations at the time they connected to their respective networks that clearly set out the extent of these rights. None of these contracts make provision for further ongoing charges. In addition, the expectation at the time of contract agreement was that the charges paid at connection were in lieu of any ongoing use of system payments.
5. We believe to impose charges on our pre-2005 Distributed Generators would be unlawful without adequate compensation being provided for our ongoing rights to export power. We believe that the prevailing understanding of all relevant industry parties prior to April 2005, by both network companies and generators at the time of connection, was that no additional charge would be payable, beyond that initial large upfront sum. This was reflective of the general acceptance of regulatory framework in place.

6. Given the connection agreements in place, network companies will be required to pay compensation to enable ongoing use of system charging. We are satisfied that the network companies, by entering into these agreements, were acting reasonably and in line with regulatory policy at the time. Hence, it is legitimate that any compensation paid should be recovered through the next price control.
7. We also believe, however, that scrutiny and care should be taken over any additional revenues, which have to be recovered from all consumers. It may, therefore, be simpler to continue to exempt pre-2005 generators from use of system charges.
8. I hope that this response has been useful in setting out our views and has made our favoured next steps clear. Please contact me if you would like discuss any of the issues covered in this response in more detail.

Yours sincerely,

Mark Hedges  
Asset Planning Manager (Thermal Power)

Andy Manning  
Head of Transmission and Distribution

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#### **Appendix - Responses to consultation questions:**

**Chapter Three - Question 5:** *Do you agree with our proposed approach to calculating refunds for unexpired capitalised O&M payments? Please suggest any improvements to the approach outlined and reasons for these.*

Given conversations we have already had with DNO's the proposal for implementation of compensation payments seems sensible, including primary responsibility lying with the DNO but requiring the DG to collaborate with supporting documents.

**Chapter Four - Question 5:** *We welcome views on how refunds should be paid and the details of implementation. In particular, should it be a one-off payment, a phased payment or a hybrid of the two? If a refund is not a one off-payment, over what time period should it be paid? Do you agree with our proposals for refunds that are not agreed by 1 April 2012?*

We believe that this compensation payment should be unbundled from any charging mechanism and would propose a one-off payment so as not to further complicate EDCM charging calculations.

**9<sup>th</sup> June Workshop at Millbank – Pre -2005 Generation Workshop.**

**Slide 35 - Issues for discussion**

Given that one of the aims of introducing the charging mechanism was to promote efficient investment signals we are still of the opinion that introducing these charges will have the opposite effect. This is due to our view that embedded generation reduces the need for network reinforcement however the price signals will simply encourage generators to connect to the transmission network and therefore rather than paying both GDUOS charges and TNUOS only have to pay TNUOS.

We agree with the view put forward at the workshop that all the additional cost and uncertainty introduced for proposed schemes simply increases the cost of credit which makes the cost to the customer greater.

We think that the uncertainty and additional cost will reduce the likely hood of embedded generation projects getting investment and therefore network reinforcement is more likely due to a lack of generation support. Again this is likely to increase the cost to the end consumer.

Resolution of disputes may be out of Ofgems control in which case putting a license obligation on the DNO to resolve all disputes by the 1<sup>st</sup> April 2012 may be impractical.