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Submitted by e-mail to:

Ofgem, Distribution Policy at
Distributionpolicy@ofgem.gov.uk

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Dear Sir,

Consultation on the EHV Distribution Charging Methodology (EDCM)

1. Thank you for the opportunity to comment on this important consultation.

2. Firstly, it is important to note that until and unless the issue of adequate compensation is resolved we do not believe that the introduction of charges for pre-2005 connected generation is consistent with the contractual agreements we hold to export power at our embedded power stations

3. However, we do appreciate the efforts made to improve the methodology and mitigate the more extreme effects, although we do not accept that the objectives for the project have been met as clearly as outlined in Section 2.20.

4. In terms of cost-reflectivity, we remain of the view that the LRIC methodology does not provide cost- reflective charges for large embedded power stations. As we have outlined before, we believe LRIC is fundamentally flawed for calculating the marginal charges for networks that have been sized to meet the export requirements of a large embedded power stations. A number of measures have been introduced to mitigate this impact. However, the fundamental issues have not been addressed and we are concerned as to whether the level of charges for some of our stations can be justified.

5. Although locational pricing is provided by the EDCM, due to the issues with cost-reflectivity it may well produce effects that are not desirable or efficient for the DNO.

6. Additional costs for embedded generation, which typically reduces the need for network reinforcement, will drive generators in the long term to only consider transmission connections for new projects due to the uncertainty of any generation credit being removed and the generator having to then pay both TNUoS and GDUoS charges. In the short term it is very likely to lead to station closures. This will tend to drive less efficient distribution networks in both the short term and the longer term.

7. We also note that CDCM users pay a considerable amount of additional revenue as a result of the implementation of the EDCM. Given the inexact and approximate nature of price modelling, requiring a large numbers of assumptions, there is inevitably a degree of subjectivity in decisions made. It is important that care is taken that placing extra costs on CDCM is not employed to manage increases for EDCM, especially as EDCM users are generally benefiting from EDCM implementation.

8. It is asserted that the methodology is common. Although it may be stating the obvious, as the DNOs can choose between FCP and LRIC, the methodology is not common. Given that

the FCP/LRIC aspect provides the locational signal which was the main driver behind the project, this cannot be ignored because the spreadsheet models employed to generate final tariffs is common.

9. We give more detailed responses to some of the key issues identified by Ofgem in the Appendix that follows below this response.

Conclusion

10. In summary, our position is broadly unchanged from previous DNO consultations.

11. Our concerns remain:

- Until the issue of compensation is addressed, these proposals would not be legal under contract law
- LRIC does not produce cost-reflective charges for these stations
- Any differential between LRIC and FCP charges could lead to a material distortion in competition in the generation market
- Implementing charging for embedded generation will discourage new projects which will lead to less efficient distribution networks.
- Considerable extra revenue is placed upon CDCM users without justification from that perspective

12. I trust this response has been useful to you in setting out our views. Please contact me if you would like to discuss any of the issues covered in this response in more detail.

Yours faithfully,

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Andy Manning
Head of Transmission and Distribution

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Appendix: answers to key issues

Demand – allocation of spare capacity

13. A clear decision has been made in the design of the EDCM to allocate as much cost as possible in a method that could be considered as cost-reflective. This is in contrast to the National Grid TNUoS charging models that applies a 'residual' charge in order to simply maintain the cost-reflectivity of the marginal aspect.

14. It order to do this, the EDCM will make a number of detailed assumptions which may be debatable. However, once this 'allocation method' has been accepted it should be maintained and we are not convinced that this individual assumption should be picked out for removal.

Issue 11 - Generation – credits for intermittent generation

15. Generators should only receive credits if it can be demonstrated that they offset the need for network reinforcement. We believe only non intermittent generation that can consistently support the network at periods of peak demand (super red bands). Therefore it is only non-intermittent generation which can put off the need for network reinforcement.

16. For clarity, if it could be demonstrated that these generators could put off the need for network reinforcement, they would clearly need to be included in both the load-flow analysis and the charging model to ensure appropriate pricing signals. Further to this, generators should only be paid for generation in the super-red band. The super-red band is selected as it is when generation is effective for offsetting the need for reinforcement. This does not cease to be true because a generator cannot control output and a generator should not be rewarded at times that do not help in delaying reinforcement.

Common issue - LRIC Branch Capping

17. The requirement for capping indicates a deficiency within the charging model which we would prefer was addressed directly.

Issue 18 Generation side management

18. The proposal to have a split between firm and interruptible capacity with a sliding scale of reduced charges is one that would be of interest to us if GDUoS charges are implemented. There would need to be case by case consideration taking into account what agreements are in place with NGC as well as the DNO. There are potential conflicts with providing services to NGC such as standing reserve and frequency response which would need to be covered adequately in the connection agreement.

19. The main issue for the DNO's and generators to consider would be how the interruptible element was triggered in real time if required to balance the distribution network as this is not covered well in the current connection agreements or systems in place between power stations and DNO control centres.

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Issue 21 – Managing charges over time

20. Volatility of charging is a major concern for new projects and projections over longer time periods would be needed to encourage investment. So in addition to 5 year projections of potential variances a longer term view would be advantageous.
21. Longer term products could be considered but this is effectively what the pre-2005 directly connected generators have which illustrates the point that longer term products can always be challenged at a later date by Ofgem. Therefore with the recent history as a guide longer term products are less likely to be attractive to enticing generators to plan new projects directly connecting to the network.