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Bringing Energy Together

Combined Heat & Power
Sustainable Energy Services
District Heating & Cooling

Nicholas Rubin
Local Grids – Distribution Policy
Ofgem,
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05 July 2011

Dear Sir,

Consultation on Electricity distribution charging methodologies:
DNOs' proposals for the higher voltages

The consultation document highlights the areas that have changed since the DNOs' consultation in December 2010. It does, however, draw attention to some fundamental points in the adoption of the EDCM, and it is these on which we concentrate in this response.

Impact of methodology and management of charges (Q1, Q2)

We are concerned about the appropriateness of these methodologies and the signals which they will give to new CHP plant. As part of a joint submission from five separate Trade Associations, we have already responded to your pre-2005 consultation, concerning the unnecessary treatment of existing plant.

In the executive summary of the consultation you draw attention to the work being undertaken as part of project TransmiT, and make the observation that this project does not necessarily have implications for distribution charging due to the different nature of the networks. This is a major oversight, particularly in the case of large scale generators connected to the distribution system, where the combined consequences of the EDCM and potential NGC charging proposals may well have a wider cumulative impact on access to the electricity system and market than anticipated under EDCM alone.

This interaction, together with the difficulty of running the separate FCP & LRIC methodologies for a potentially short space of time, and the continuing failure to conclude pre-2005 compensation arrangements, creates a strong incentive to delay the implementation of the EDCM work until 2015.

One of the original reasons for undertaking the EDCM project was that it encouraged users to make more efficient use of the existing infrastructure and, in particular, to ensure that distributed generation is properly recognised by an appropriate charging methodology. We remain concerned that this has not been demonstrated in the final proposals by the DNOs. On a fundamental basis it appears that generation and demand are not treated equally in either of the two charging methodologies.

It has been pointed out by our members that there appears to be a flaw in the charging methodologies as it signals that increasing demand in a 'generation rich zone' will not be credited. This needs correcting in order to meet this and the wider 'locational pricing' objective in your assessment.

Ofgem's high-level assessment indicates that you believe the latest proposals from the DNOs represent a substantial improvement on their current methodologies. This may be the case and some improvement on what exists at present, but to continue to have two methodologies in place for potentially a short period of time until the 'best' emerges is neither good regulatory nor business practice.

We now turn to issues that we feel able to respond to in the consultation. You request detailed responses in other areas. Without access too much of the data and knowledge of the model operation we are not able to comment on some of these other issues, so we have limited our response to those areas where we feel confident to address.

Issue 10: Application of generation credits to units exported during super-red & Issue 11: No credit for intermittent generation (Q4.3 & Q4.4)

On a general basis we take the view that generation should treated the same way as demand. The DNO argument that generation is somehow less reliable or persistent than demand, is based on historical patterns at single generation sites. This is clearly not the case in for sites with CHP, and when diversity is factored in, exporting sites may collectively demonstrate the same features as demand. Not to cater for this now, means that the charging methodology is not fit for future purpose (such as the introduction of smart grids) and will not be capable of reflecting the diversity of new DG at scale.

Issue 5: Calculation of Network Use Factors (NUF) &
Issue 12: Import charges for generation-dominated mixed import/export sites (Q4.5)

The allocation and calculation of NUFs both for demand and generation of the same assets is unclear. It would be useful to have seen worked examples associated with combined heat and power activities based around industrial premises. This will give confidence that the model and the assumptions in it worked. As presently drafted the treatment of this within EDCM may lead to inappropriate cost recovery, and together with the unsymmetrical nature of demand and generation charges, give perverse or incorrect charging costs or signals.

We trust these observations are useful to your understanding of the issues facing companies such as our members.

Yours sincerely

Dr Tim Rotheray,
Policy Manager