

By Email: Ynon.Gablinger@ofgem.gov.uk

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4 July 2011

Our ref. 110704_EDCM

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Dear Ynon,

RE: Extra-High Voltage Distribution Charging Methodology

Thank you for the opportunity to comment on your consultation issued on the 20 May 2011. DONG Energy is one of the leading offshore wind farm developers in the UK with 308MW of operational wind farms, a further 653MW under construction, and approximately 1.5GW under development. We also have an 824MW CCGT plant in South Wales.

As DONG Energy has four offshore wind farms connected at the extra-high voltage level in three different DNO areas we welcome the increased simplicity and transparency that the introduction of a single methodology will bring.

However, we are concerned that:

- The treatment of conventional and intermittent generation is not on an equal basis,
- Sole use asset O&M costs may be paid for twice by some generators,
- Measures to mitigate volatility may increase costs and reduce transparency.

Below are our answers to some of Ofgem's specific consultation questions:

4.1: Do you agree with our proposal to modify the generation revenue target in order to avoid double charging for O&M costs on sole use assets? Do you agree with our view that the approach to calculating a generation revenue target is reasonable?

We agree that a revenue target is a reasonable way to ensure that the DNOs' revenue allowances are met. However, as mentioned above, we believe it is important that the methodology treats all users on an equal basis: double-charging post-2005 connected generators for O&M costs would seem to contradict the cost-reflective intentions of the overall methodology. If the revenue target is not to include sole use assets, it does not make sense to include O&M charges for sole use assets.

4.2 Do you agree with our assessment that the approach to scaling is reasonable?

We agree with Ofgem that it is not intuitive to charge generation for assets used beyond sole use assets. Treating the entire scaling factor as non-locational will make the methodology simpler and more transparent.

4.3 Do you think it is appropriate for only units exported by non-intermittent generators during the super-red time band to be eligible for credits?

No, see Question 4.4.

4.4 Do you agree with our proposal that intermittent DG should be eligible for credits as they are deemed to provide network benefits under ER P2/6?

Yes. As intermittent generation can contribute to system security, recognised in the engineering standards for network planning, we do not consider it due discrimination to exclude it from receiving credits. We regard it as inconsistent to account for wind in some circumstances, but at the same time exclude such generators from credits, particularly as credits for conventional generation are not payment for guaranteed availability, but simply the production during the super red time band.

While there may be limited amounts of intermittent generation currently connected at the DNO level, increased amounts of small-scale renewables and improvements in e.g. wind forecasting in the longer term may lead to increased recognition of intermittent generations' increased contribution to system security.

Excluding intermittent generation from credits now may reduce the incentive to connect small-scale renewables, preventing benefits from being achieved in the longer run, and would run counter to Ofgem's requirement to promote sustainability.

6.4 Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors?

We regard the increasing volatility as the main drawback of the proposed methodology. While we welcome Ofgem's proposal to introduce mechanisms to mitigate volatility, care needs to be taken to ensure any new measures do not increase costs or reduce transparency. If volatility is seen to be a large concern among users, it may be that fundamental elements of the methodology need to be revisited.

Yours sincerely
DONG Energy



Ebba John

Regulatory Affairs Advisor