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Nicholas Rubin,
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The Office of Gas and Electricity Markets
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20 August 2010

Dear Nicholas,

Charges for pre-2005 Distributed Generators' use of DNOs' distribution systems

Thank you for the opportunity to respond to your consultation on charges for pre-2005 Distributed Generators. Our detailed responses to the questions raised in the consultation are attached

Yours sincerely,

Paul Bircham
Customer Strategy & Regulation Director

DETAILED RESPONSE

Chapter Two

Question 1: We invite respondents to provide further information they have on contractual arrangements and the extent to which the descriptions in this chapter fit their own circumstances.

We have obtained external legal advice on the contractual arrangements which is similar to the description set out in the document.

Question 2: Do respondents agree with our understanding of the arrangements affecting CVA and SVA customers?

As above

Question 3: Do you consider our summary of contractual issues is accurate and complete?

As above

Chapter Three

Question 1: Have we identified the relevant considerations that influence the decision whether to adopt a bundled or unbundled approach?

Yes, we agree that you have identified the relevant considerations for the decision between the bundled and unbundled approaches.

Question 2: Do you agree with our minded to position to adopt an unbundled approach for the EDCM

We agree strongly with your minded to position to adopt an unbundled approach. A bundled approach will introduced more complexity and potentially impact on the ongoing development of charging methodologies.

Chapter Four

Question 1: We welcome views on the criteria that should be applied to determine when it is appropriate to pay compensation.

In the first instance we believe that DNOs should seek to amend terms and reach agreement with the customer on new terms without the need for compensation. Compensation should only be considered as a means of resolving disputed terms where the DNOs legal advice in the specific circumstances is that it is unlikely to have the contractual rights to vary the charges. This ensures there is explicit approval by Ofgem of the level of compensation to be paid.

Question 2: When it is appropriate what method(s) should be used to calculate the level of compensation?

Compensation should only be paid where it is projected under the volatility scenarios that an existing generator could face as loss as compared to its existing terms and is disputing the DNO's offer, and the DNO's legal advice its rights to vary charges are not clear. The method of compensation should be using the NPV approach considering the expected remaining life of the generator connection using standard assumptions, say 25 years from the initial connection. For generators with large import capacities, consideration should also be given to any benefits received through lower impart charges.

Question 3: Do respondents consider compensation to be appropriate in cases where contracts allow for a variation when charging arrangements change? If so, why? Our understanding is that this is the case for all SVA generators and some CVA connected generators.

We consider that the compensation should not be paid where contracts clearly allow for a variation in charging arrangements. Whilst we agree that this should cover all SVA registered customers, compensation may be paid to these customers where justified in the review of the contractual arrangements.

Question 4: Where contracts are not explicit that UoS charges are included within the terms of the connection, do pre-2005 DG customers have any rights to compensation based on the value of expected UoS charges? What would be the justification for this?

Compensation should be based on loss and the easiest and most robust means of calculating this is the NPV of the difference between existing charges and projected

future charges. Other approaches involve detailed analysis and paper chases for records that may no exist.

Question 5: We welcome views from respondents as to whether the same compensation principles should apply to HV/LV customers as to EHV customers and whether the same contractual and fairness issues apply.

We do not believe there is a case for compensation to HV/LV customers as they cannot demonstrate a loss.

Question 6: Are there any other proposals or relevant issues that we have not identified in this consultation that you think should inform our policy development going forward?

We cannot think of any other issues.

Question 7: We would welcome evidence from respondents that would allow Ofgem to assess the potential magnitude of the compensation that might be due under the different approaches that might be adopted to assessing compensation.

This depends on the final projected charges that emerge from the EDCM. The above approach should minimize the level of compensation payable.

Question 8: We welcome views and evidence on the approach that should be adopted in the case of special contracts that grant rights in excess of standard rights and whether any compensation due should all be funded be customers through the price control.

We are not aware of such contracts but if there are any the same principles as above should apply.