

Details of Respondents

Energy Power Resources Limited ("EPRL") is a renewable energy generator which owns and operates five biomass power stations (113MW in total) in the UK, commissioned between 1992 and 2001.

CLP Envirogas Limited ("CLP") is a related entity, generating renewable energy from landfill gas, operating from 25 sites across the UK with around 65MW of installed capacity. CLP's sites have been developed between 1998 and 2011.

Between EPRL and CLP there are over 30 Connection and/or Use of System Agreements; EPRL's five sites will be charged under EDCM arrangements from 1st April 2012 under these proposals (generally receiving GUoS credits based upon the latest illustrative charges) and the vast majority of CLP's sites have received GDUoS credits under CDCM arrangements since 1st April 2010.

Response

Chapter 2

Question 2.1: What are your views on the key issues with the methodology we have highlighted? Are there any other issues or concerns with the methodology as a whole that we should consider?

The key issue with the EDCM methodology is the significant (in terms of absolute value and percentage) impact this may have on a small number of import and export customers ("outliers") based upon location decisions made, prior to the introduction of this methodology, in respect of high value long-life capital assets. Such businesses may well now incur significant ongoing use of system charges and are unlikely to be in a position to relocate. The proposed EDCM methodology would therefore result in a cost-reflective signal being received by a business that is unable to react to it. This may be unfair to the individual business but is a consequence of what is seen as a change in methodology for the long term benefit and more efficient use of the distribution networks resulting in overall lower costs.

We are unable to comment on whether the site specific illustrative costs are in fact cost reflective. The most recent illustrative costs certainly appear to be an improvement on those originally circulated within which did not appear to be cost reflective and included significantly more outliers and unjustifiable charges. Before approval, we would request that Ofgem obtains a detailed explanation of all outliers from each DNO and satisfies itself that in each case these are justified.

It is also likely that this methodology will result in greater volatility in charges for all EDCM customers whose charges will be influenced significantly by the actions of others over which they have no influence.

In order to improve customer investment decision in future, for their benefit and the efficient use of the network, the DNOs will need a much improved process for communicating both connection costs, ongoing use of system charges and estimated future headroom/volatility.

Question 2.2: Should we approve the methodology, do you agree with our proposal to implement it in full from 1 April 2012? If not, why is phasing-in charges or delaying implementation appropriate?

Ofgem's policy intent is to have cost reflective use of system charges. If it believes that the methodology proposed by the DNOs meets these criteria then it should approve the methodology and implement it in full from 1st April 2012.

There is little to be gained from either a partial implementation (overly complex) or deferral.

As indicated above, the proposals pose two main concerns (i) adversely impacted outliers and (ii) volatility in charges. Whenever these proposals are to be implemented, these concerns will prevail and as such must be addressed; however they are not a reason for further deferral or a phased approach.

Chapter 3

Question 3.1: Do you agree with our assessment that the approach for the revenue target is reasonable?

Not considered.

Question 3.2: Do you think the principle the maximum import capacity is a cost driver at the voltage of connection is reasonable for charging purposes?

Not considered.

Question 3.3: Do you agree with our view that reactive power flows should be incorporated as part of the capacity that attracts indirect costs and 20 per cent of the residual?

Not considered.

Question 3.4: Is it appropriate to consider the specific assets the customer uses for the calculation of the customer's charge, or would it be more appropriate to consider only the voltage levels the customer uses for the calculation of charges?

Not considered.

Question 3.5: Do you think that the "spare capacity" issue we identify should be addressed?

Not considered.

Question 3.6: Do you think notional asset values should take into account assets below the customer's voltage of connection?

Not considered.

Question 3.7: Are there any other demand specific issues that you think we should consider as part of our decision?

Not considered.

Chapter 4

Question 4.1: Do you agree with our proposals to modify generation revenue target in order to avoid double charging for operations and maintenance costs on sole user assets? This issue aside, do you agree with our view that the approach to calculating a generation revenue target is reasonable?

We agree with the proposals to avoid double charging for operations and maintenance costs on sole user assets, and agree that the generation revenue target calculation is reasonable.

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

The approach to scaling appears to be reasonable.

Question 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?

On the basis that reinforcement expenditure in a demand dominated network area will be driven by periods of peak demand, we understand and agree with the rationale of applying credits to actual generation during the super-red time bands.

We note however two points:

- (i) Based upon the illustrative charges communicated in December 2010 and the final DNO proposals, the overall level of credit for EPRL's five sites appears to have reduced, whilst it was our understanding that the unit rate would be increased to reflect the reduced hours over which the credit will be applied. Whilst this may be the case, the late change was not consulted upon prior to submission to Ofgem; and
- (ii) The approach proposed is different from that being adopted for GDUoS credits for CDCM customers, in that under CDCM charging every hour receives a credit, the value being determined by the super-red (and amber and green) bands which are defined throughout the year, reflecting all year round early evening peak capacity Monday to Friday.

The current proposal implies that distributed generation provides no network benefit outside of the winter super-red time bands. Our preference would be to define super-red (and amber and green) time bands across the year rather than just November to February (as with CDCM) whilst keeping the overall credit payable the same (although this is only a marginal preference). DNOs should confirm the rationale for the application of different time bands between CDCM and EDCM.

Question 4.4: Do you agree with our proposals that intermittent DG should be eligible for credits as they are deemed to provide network benefits under ER P2/6? If they do become eligible for credits, should the credits only relate to units exported during the super-red time band or is a single credit rate to all units exported more appropriate?

We agree that intermittent generation should be eligible for some element of GDUoS credit, reflecting the benefit provided to the network and to be consistent with the CDCM. On this basis, actual credits should be based upon actual output (to be consistent with non-intermittent generators) and perhaps the unit credit rates should be reduced, compared to non-intermittent generators, for consistency with CDCM and also reflecting that intermittent generation cannot be relied upon for system security to the same extent as non-intermittent generation.

Ofgem Consultation: Electricity distribution charging methodologies DNOs' proposals for the higher voltages
EPRL/CLP Consultation Response

Credits for intermittent generation should not apply to all units exported unless this is the approach adopted for non-intermittent generation (see our response to question 4.3).

Question 4.5: On import charges for generation dominated mixed import-export:

- Do you agree with our suggested alternative to using the collar of the network use factor for the calculation of the import tariff?
- Do you think that the methodology is appropriate for demand customers connected to generation dominated assets?

Subject to feedback from the DNOs, Ofgem's suggested alternative methodology appears to be more cost reflective.

A typical distributed generator will have a demand requirement (for parasitic load) significantly less than its export requirement. The overall fixed and capacity charges (import and export) for the distributed generator, before accounting for any GDUoS credits or import use of system charges, should reflect its overall impact on the network assets, on the basis that the local network is likely to have been sized on the basis of generation requirements and that import requirements will in the main use the same assets. It is important that the methodology reflects this shared use of local assets, and avoids any double charging of fixed and capacity costs.

Question 4.6: Are there any other generation specific issues that you think we should consider as part of our decision?

None.

Chapter 5

Question 5.1: Do you agree when calculating LDNO charges that DNO costs upstream and downstream of the point of connection should be considered?

Not considered.

Question 5.2: Do you think that DNOs should provide LDNOs with a discount on all non-asset based charges?

Not considered.

Question 5.3: Do you think that varying LDNO discounts only with the point of connection will better achieve a balance between reflecting upstream and downstream costs?

Not considered.

Question 5.4: Do you agree that it may be appropriate in some circumstances for the DNO to pay LDNOs use of system credits?

Chapter 6

Question 6.1: Do you think sole use assets should attract scaling "costs" to the same extent as shared assets? Does the charging rate on sole use assets seem reasonable given the nature of these assets?

We agree with the DNO's rationale subject to the planned open governance arrangements.

Question 6.2: Do you agree with our view that the arrangements for demand and generation side management agreements are appropriate? Do you think such agreements should be available to all customers?

The arrangements for demand and generation side management agreements are appropriate and should be available to all. However, we doubt the feasibility of generation management agreements for distributed generators, the sole commercial objective of whom is to generate electricity for which a non-interruptible capacity is required.

Question 6.3: Do you agree with our assessment that an explicit reactive power charge is not appropriate?

We agree with the DNO's assessment.

Question 6.4: On the proposal for sense checking branch incremental costs in LRIC:

- Do you agree with our view that positive cost recovery (ie charges) and negative cost recovery (ie credits) should be considered separately?
- Do you consider that recovery from demand customers and recovery from generation customers should be considered separately?

We agree that positive cost recovery and negative cost recovery should be considered separately.

We agree that recovery from demand customers and generation customers should be considered separately.

Question 6.5: Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors? We welcome views on measures to mitigate volatility and help customers manage volatility?

Volatility is a function of the EDCM and any mitigation of this will reduce the cost reflectivity of the resulting charges and delay the financial benefit of mitigating actions implemented as a reaction to the charges. Further, any fixing of charges at a customer to reduce volatility will result in other customers being charged for any resulting under or over recovery.

On balance we recommend the use of caps and collars (as proposed by the DNOs) to mitigate the inherent volatility created by network use factors.