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

This letter is in response to your consultation ref 67/11 published on 20 May 2011. Falck Renewables Wind Limited currently owns four operational "pre-2005 distributed generators" (Boyndie, Ben Aketil, Cefn Croes and Earlsburn windfarms), connected to the 33 or 132kV distribution networks, which together have a total capacity of 140MW. In addition we have a large portfolio of wind projects in development which we hope will get consented and subsequently connected to the EHV distribution network. Falck Renewables is please to offer the following responses to the questions raised in your consultation:

Chapter 2

Q2.1: 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?

A2.1: Our preference would be for the charging arrangements for pre 2005 DGs to be grandfathered and that new charges should not apply to these connections. Long term capital investments are ideally made on the basis of certainty about long term network charges or investors will look for higher returns to reflect higher risks. Stability of charges and grandfathering principles are important to maintain investor confidence and limit risk premiums.

We note the proposal to introduce a Generation Credit for generators exporting during the super-red periods but excluding intermittent generation. This seems to discriminate against intermittent generation and is inconsistent with the Triad methodology for example. Additionally Project TransmiT has considered charging a lower UoS charge for intermittent generators to reflect the fact that they use the transmission assets less than high load factor non-intermittent plants and can share the same asset to some extent. The proposal to only credit non-intermittent generation has the opposite effect of making UoS charges higher for intermittent plant.

We're concerned that the proposed charging methodology may introduce volatility with significant changes year by year, due to the behaviour of other new connections. Such volatility is problematic for financing new projects exposed to such volatility.

One of the reasons stated for introducing the EDCM charging methodology is that it will give signals to generators to locate in areas where charges are low. In our experience this is unlikely to have any impact on developers of windfarms who are influenced by more fundamental issues such as windspeeds and planning prospects. We note that it's an aspiration of the new charging methodology that charging should be more transparent but we are sceptical that this will be achieved and even if it is then we still feel that this will not significantly affect windfarm developers location choices.

Q2.2: 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?

A2.2: As noted above our preference is that UoS charges should not be applied for pre 2005 DGs. Aside from pre 2005 DGs we would prefer implementation to be phased in order to soften the impact of these additional costs.

Chapter 4

Q4.1: Do you agree with our proposal to modify the generation revenue target in order to avoid double charging for operations and maintenance costs on sole use assets? This issue aside do you agree with our view that the approach to calculating a generation revenue target is reasonable?

A4.1: We agree that generators should not be double charged for O&M costs. Our preference would be for the charging arrangements for pre 2005 DGs to be grandfathered so that they are not subject to new charges.

Q4.2: Do you agree with our assessment that the approach to scaling is reasonable?

A4.2: We would only comment that our preference is for a mechanism that is predictable and non volatile. As mentioned in A2.1 we don't believe that preserving locational signals in the charging methodology is a significant driver for windfarm developers so we wouldn't agree that this is a valid benefit of the scaling approach. Clearly windfarms aren't the only distributed generation but they make up a significant proportion of DGs and are expected to continue to increase over the foreseeable future.

Q4.3: 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?

A4.3: As stated in A2.1 we are concerned that intermittent generators are excluded from the proposal to introduce a Generation Credit for generators exporting during the super-red periods. This seems to discriminate against intermittent generation and is inconsistent with the Triad methodology for example. Additionally Project TransmiT has considered charging a lower UoS charge for intermittent generators to reflect the fact that they use the transmission assets less than high load factor non-intermittent plants and can share the same asset to some extent. The proposal to only credit non-intermittent generation has the opposite effect of making UoS charges higher for intermittent plant.

Q4.4: 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? 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?

A4.4: We believe that intermittent generation should be eligible for credits and our preference would be for the single credit rate methodology as this will give a more predictable credit for windfarms than units generated during the super-red time bands. We concur with your suggestion to make it a condition for approval of the Methodology to allow some credit to intermittent generation (4.70)

Q4.5: On import charges for generation dominated mixed import-export:

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

A4.5: No comment

Q4.6: Are there other generation specific issues that you think we should consider as part of our decision?

A4.6: No comment

Chapter 6

Q6.2: 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 for all customers?

A6.2: In terms of optimising the UK generation mix and minimising emissions it clearly makes sense that windfarms should generate in an unconstrained way. In addition because windfarms receive ROCs in addition to the price of electricity sold and there's no saving from unused fuel then there's not much logic or benefit for windfarms carrying out generation side management. Taking account of this and the proposal to provide no credit for intermittent generation means that windfarms will pay much higher UoS charges than other generators who can take advantage of these reductions in charges.

Q6.4: 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.

A6.4: As already stated the potential volatility of EDCM charges is a significant concern for DGs and the consequential difficulties for financing and cashflow management. For these reasons we'd prefer to start with a non volatile EDCM and failing that we'd like to see a mechanism for mitigating that volatility.

Overall although we welcome the aspiration to create a common charging methodology across all distribution networks and to improve charging methodology transparency we feel that the proposed methodology has several elements which are very detrimental to wind generation. The proposal to introduce new charges for pre 2005 connected DGs is in our opinion unreasonable and goes against the common practice of grandfathering. The potential volatility of the proposed charging mechanism is undesirable in a situation where there is a need to foster investor confidence to fund the

anticipated major expansion in renewable energy. The initiatives proposed to mitigate the impact of the proposed charges (credits for generation in super-red periods and discounts for generation side management) are effectively not available to windfarms so that windfarms may pay much higher UoS charges than other DGs.

We welcome the opportunity to respond to this consultation and confirm that we are available for discussion if any clarification is required.

Yours faithfully

Charles Williams
Business Development Director
Falck Renewables Wind Limited