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Dear Ynon

### **Consultation on Electricity distribution charging methodologies: DNOs proposals for higher voltage networks**

The Renewable Energy Association is pleased to submit its comments on the DNOs proposals for charging customers connected at ehv and customers connected directly to and metered at the hv busbars of an ehv / hv substation. The REA has members who work on all types of renewable power and heat projects including many electricity generation projects that connect to a distribution network. We have been active in the development of distribution charging for over five years and participated in the majority of consultations on the subject over that period.

We are restricting our comments to those that affect generation. The main points that we wish to make are as follows.

- We oppose the introduction of DUoS charges for generators connected prior to April 2005. We have made a joint response with various other Trade Associations on this matter and therefore are not saying anything further on it here.
- We support giving credit to intermittent generation that operates at times of high demand.

- We remain opposed to the scaling of charges in either direction for generators.

We now give our responses to the specific questions that you have asked.

## **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?

We generally agree that the areas you have chosen may warrant further consideration and we give our view on those of them that affect generators under the question that is specific to each issue. We think that you should reconsider scaling for generation charges. It serves no useful economic signalling purpose and could potentially swamp the carefully constructed forward looking signals.

**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?

Providing charges are not implemented for pre April 2005 connected generation and the generator charge scaling issue as mentioned above is addressed, we think that the methodologies should be implemented from April 2012.

## **Chapter 4**

**Question 4.1:** 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?

We do not agree with the concept of a generator revenue target or scaling for generators which as you point out was introduced as a concept at a very late stage in the development of the methodology i.e. it was not mentioned in the June 2010 DNO consultation. If there were to be a generation revenue target then we would support your proposal to avoid double charging for O&M on sole use assets.

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

If there were to be scaling (which we do not support for generator charges) then we would support a fixed adder approach. We note from figure 4.2 that six of the fourteen DNO areas have negative fixed adders and that in two DNO areas

well over 95% of revenue recovered from generation is via fixed adders. Whilst we acknowledge that with fixed adders the forward looking marginal cost differentials are preserved overall the fixed adders are dominating the generator charges in these two DNO areas to such an extent to make the marginal elements irrelevant.

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

Leaving aside the issue of intermittent generator credits (to be addressed in the next question) we agree that it is more cost reflective to apply the generator credit to generation during periods of maximum demand.

**Question 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? 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 think that intermittent generation should just like other generation receive credit for all units generated during the super-red time band. Our justification for this is that no generation can be relied upon to be available and generate during any particular time period, such as the time of peak demand. Whilst non intermittent generation has a larger probability of being able to generate over this period than intermittent generation, by measuring the actual generation over the super-red period it is irrelevant what type it is for the purpose of assigning it a benefit. This approach also avoids the need to debate whether a particular type of generation is intermittent or non intermittent which could for example be contentious in borderline cases such as hydro schemes with very limited storage capacity.

By looking at the actual generation capacity available over a number of years it should be possible to develop more accurate factors for use in system planning (which in any event may change in the medium future if smart metering facilitates significant additional demand management capability).

We do not support the idea of giving credit for generation at any time as this is not cost reflective. We also think that if credit is given only for generation that actually runs during super red periods that generation should be given credit in respect of all voltage levels irrespective of its type. This approach is consistent with measuring the generation that is actually running as opposed to assessing which generation has the highest probability of running and giving credit for that. One would of course expect intermittent generation typically to receive less credit on average to reflect its lower probability of running during peak demand periods. On the other hand this method would for example give an appropriate credit to solar generation that generated during summer mid day periods in the UKPN LPN for example (if charged under the EDCM). What matters for earning credit is actual generation during peak demand periods. By giving

credit for all such generation running during super-red periods the credit is given without having to worry about the source of that generation.

**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?

As this is a question related to demand charges we will not comment on it.

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

Providing you take note of our views on the scaling of generator charges and charges for pre April 2005 connected generators we think that you have covered all the issues that we would wish to be considered.

## **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 do not think that charges for generators should be scaled at all. Having said this given that scaling is used to collect a given revenue and almost by definition is not a cost reflective charge (if it were it could be allocated rather than collected by scaling), we are not overly concerned with the non scaling of sole use asset charges.

**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?

We think that the latest proposals for demand and generation management rebates are appropriate. In principle we agree that such agreements should be available to everybody.

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

We agree that the current proposal is appropriate.

**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 and negative cost recovery should be considered separately for capping branch cost recovery within LRIC. We are less convinced by the suggestion that recovery from demand and generation should be considered separately. This is because it is possible that there is both demand and generation at both ends of a branch and in terms of capping the recovery for that branch it is not clear that the generation at opposite ends of it (or the demand at opposite ends of it) is cumulative in its effect.

**Question 6.4(typo!):** 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.

We will not comment on network use factors specifically as it is an issue that primarily affects demand. On the general issue of providing long term products at prices that are more predictable than year by year prices the main question that has to be addressed is whether, if such products are offered by DNOs, any difference between the recovery from these tariffs and the year by year tariffs (in either direction) is for the account of the DNO shareholders or customers not on these tariffs. In other words how would income under long term tariffs (to the extent that it differed from the standard tariffs) be treated for price control purposes?

If you would like to discuss any of these comments further please let me know,

Yours sincerely

Gaynor Hartnell  
Chief Executive  
Renewable Energy Association