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24th June 2011

Dear Ynon

EDCM: DNO's proposals for the higher voltages

RWE npower welcomes the opportunity to comment on these proposals. This response is provided on behalf of the RWE group of companies, including RWE Npower plc, RWE Supply and Trading GmbH and RWE Npower Renewables Limited, a fully owned subsidiary of RWE Innogy GmbH.

Implementation and Potential Improvements:

We fully support the general principles and objectives that underpin the EDCM project. We also broadly support implementation of the potential improvements highlighted by Ofgem in the consultation. We would request that if EDCM is implemented on 1 April 2012, implementation of the additional changes are delayed and applied with sufficient notice to give generators, consumers and suppliers an opportunity to review the impact of these changes and plan accordingly. We would request that DNO's publish new illustrative charges when these changes are implemented to allow consumers and suppliers to assess their impact.

We recognise the current confidentiality issues around roll-out of the populated models. However, we would be supportive of any work to anonymise the model since it would be useful for generators, customers and suppliers to be able to use the model to provide better understanding of how the tariffs are calculated and improve predictability.

Volatility and Demand /Generation Side Management:

We are concerned at the likely volatility around these charges since this makes it difficult for consumers and suppliers to predict tariff levels moving forward. We support the need for the development of long term products to mitigate some of these effects and any actions which smooth the volatility of these charges.

We are concerned at the proposal to require the DNO's to develop a package of measures that help customers manage their charge. In particular, we are concerned by the proposal to introduce demand or generation side management, where DNOs contract directly with the consumer or generator to restrict their capacity at certain times. We are worried that this suggestion takes no account of the contract that the customer has with their supplier and that there could be a conflict between the agreement with the DNO and the contract with the supplier:

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- For example, if a demand customer is on a non-pass through contract with their supplier (i.e. DUoS is not billed separately, it is consolidated into the overall tariff), the customer may not see the expected benefit of reducing their consumption since the drop in consumption is spread over a wider time period with potentially a less expensive rate.

- Additionally, customers may also have contracts where they receive penalty charges from the supplier for being outside a contracted consumption band (based on the fact that the supplier has bought volume for that customer and will face imbalance charges if the customer has not used their expected volume). The expected benefit of the demand side management is therefore lost through the additional charges on the supply contract.

Large demand and generation side management activities that the supplier is not a party to could have a detrimental effect on supplier forecasts and ultimately result in larger supplier imbalance charges. In addition, with such arrangements, it is often difficult to accurately measure the extent of the demand or generation side management.

It is not entirely clear from this consultation how these contracts would be work in practice i.e. does the benefit go to the customer or generator via the supplier (who pays the DUoS charge) or directly from the DNO? To ensure clarity, we would propose that there should be common demand / generation side management process and contractual terms across all DNO's.

We believe that suppliers should be key parties to these demand / generation side management discussions. Otherwise, there is a risk that customers or generators do not receive the overall benefit they were expecting and suppliers face additional imbalance costs.

Approval conditions

We believe that Ofgem should place a condition on the DNOs to introduce credits for intermittent generation as part of any decision to approve the EDCM. We believe that intermittent generation helps to reduce peak load and provide support in outage conditions and that this should be recognised in the EDCM methodology. Moreover, if credits were to be applied to intermittent generation, such generators would be incentivised to carry out maintenance at times outside the super red time period which would further improve network efficiency. Ofgem states that the proposal not to offer credits for intermittent generation reflects the fact that intermittent generation does not help to offset network reinforcement. We do not believe that this is true because National Grid reinforces the wider network less for intermittent generation than conventional generation. Therefore although the local network does need to be reinforced to the same scale as conventional generation the wider network does not and we believe that this should also be taken into account in the EDCM methodology. We think that this change would enable the methodology to better achieve the Relevant Objectives.

We also believe that the DNOs should be encouraged to help generators monitor and adapt their behaviour in response to the price signals created by the EDCM. We are particularly concerned by the volatility of charges over which we have no control and look for ways of mitigating the associated risks.

Timescales for Implementation:

We continue to believe that the EDCM should be introduced for per-2005 until the end of the asset life of the generation assets. As already indicated, if Ofgem does decide to proceed with the implementation of the EDCM, we would prefer that implementation is delayed for all generation tariffs to allow the contractual / legal issues around pre-2005 connected DG to be resolved. We would suggest that this is delayed until RIIO ED1 (2015). We do not believe it would be appropriate to implement post and pre 2005 DG at different times. It would be a much cleaner solution for all generation EDCM to be implemented on the same date and would give us time to introduce measures to mitigate the significant impact on some of our sites.

We do, however, support earlier implementation of EDCM for demand customers – either April 2012 or April 2013 since this is beneficial to the majority of customers.

By email so unsigned

Helen Inwood
Network Charging Manager