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Distribution policy
Ofgem
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Dear Ynon

Electricity Distribution Charging Methodologies: DNO's Proposals for Higher Voltages

Scottish Renewables is Scotland's leading renewables trade body. We represent over 320 organisations involved in renewable energy in Scotland¹. We have worked in close conjunction with Highlands and Islands Enterprise in the production of this response, hence our close alignment on the issues raised by Ofgem in this consultation.

Generators connecting at Extra-High-Voltage (EHV), effectively 33kV in Scotland, have been faced with up-front reinforcement costs, significant underwriting for transmission reinforcements, ongoing uncertainty on liability for transmission charges, grid code compliance issues (sometimes conflicting with distribution codes and obligations) and GDUoS for post-2005 generators.

To date, GDUoS has been a relatively low profile issue. Whilst methodologies can be difficult to understand, tariffs are reasonably straightforward to obtain and simple to apply. Post-2005 generators still pay a significant proportion of their costs through up-front capital contributions. The EDCM methodology does not change this. Rather, the EDCM methodology makes the GDUoS element higher in most cases, and in all cases more complex, variable and unpredictable. Furthermore, unless a generator is already connected, it is very difficult to obtain any indication of its tariff – this includes generators connecting in 2012-13.

Overall we feel that Ofgem and the DNOs have been focused on the detail of what Ofgem itself describes as a “highly complex methodology” and has overlooked some more fundamental aspects of the methodology. The EDCM proposes non-transparent and volatile tariffs which provide a barrier to competition and add unnecessary risk to project finance. Furthermore we are very disappointed that Ofgem has failed to assess the implications of data confidentiality which seem to preclude publishing tariffs and issuing the EDCM model to customers.

¹ www.scottishrenewables.com

We elaborate on these and other issues below. Please note that Scottish Renewables' response is focused on generation tariffs.

Cost signals

The core rationale for the new methodology is that users can respond to cost signals given by the methodology. At an ENA workshop earlier this year, users pointed out to Ofgem and the DNOs that there are no published tariffs, and hence no cost signals to which to respond. Whilst we acknowledge that this is due to unforeseen confidentiality issues, it completely undermines the cost signal.

The DNOs acknowledged that some tariff mapping would be required in order to effect a meaningful cost signal. It is surprising that Ofgem's consultation does not deal with this issue.

- Ofgem should consider the impact of there being no published tariffs or tariff mapping, which effectively removes any pre-commissioning locational signal.

Ofgem also says that it wants to promote "efficient use of the existing infrastructure" by encouraging users to locate where there is spare capacity. We have serious reservations about whether the methodology will achieve this, because of its forward-looking nature. A generator that uses up spare capacity will be encouraged to do so by the low *capital* reinforcement charges. However, the EDCM methodology will, as we understand, signal the need for future reinforcement as soon as that generator connects, and return a high GDUoS charge, in so doing *discouraging* the use of spare capacity.

We struggle to see the logic of this approach. It may be appropriate for demand that shows incremental growth year-on-year, but it does not make sense for generators whose major decisions are all made up to commissioning, not afterwards.

- Ofgem should consider whether the signals for generation are appropriate, and whether they align with the capital connection cost signals.

Scottish Renewables is also concerned that the EDCM methodology double-signals the cost of shared reinforcements paid for as a customer contribution, the value of which is then incorporated into the EDCM methodology and used to allocate further costs to the same generator. It seems wrong to have overlap of the connection charging boundary and the Use of System charging boundary; this risks challenge where generators feel they are being signalled the cost of the same asset twice.

- Ofgem should review the overlap of charging boundaries between connection and use of system.

Managing generator's charges

Data confidentiality issues have also precluded the DNOs from issuing the EDCM model to users. This means that options analysis for site location, capacity and output will all need to be modelled by the DNO for all prospective projects. The same applies for connected projects wishing to mitigate charges through flexing what they can – perhaps registered capacity and output.

However in the impact assessment Ofgem states that the new methodology will have “small impacts” on DNOs, “for example in running the power flow model each year that produces the notional asset values.” This is a very significant underestimate of the impact the new methodology will have on DNOs’ resources in supporting customers’ needs.

→ Ofgem should re-evaluate the impact of the new methodology on DNOs

Scottish Renewables shares Ofgem’s concern about whether Generation and Demand Side Management agreements will be at the discretion of the DNO. A useful option for intermittent generation will be to have an export capacity lower than its nameplate capacity. Scottish Renewables would also like to see options for groups of generators or generation and demand to collectively manage use of the network and see reduced charges as a result. The methodology should not prescribe when and where generation, especially intermittent generation, has a network benefit.

→ Ofgem should mandate the DNOs to be flexible with DSM and GSM agreements, and to make them available to all customers and customer groups.

Finally, generators may have grid code or DNO-related obligations which limit their operational flexibility. Where generators are providing a service of this nature, this should be reflected either in remuneration for the service, and/or in relief of network charges.

→ Ofgem should ask DNOs to consider GDUoS tariff mitigation where generators have technical and operation obligations to the DNO or National Grid.

Project TransmiT

Ofgem says in its consultation that Project TransmiT “does not necessarily have implications for distribution charging due to the different nature of the networks.” Scottish Renewables agrees that the networks are different in many respects, but notes with some concern the ongoing and very damaging uncertainty caused by the debate on transmission charging for distributed generators. This debate was premised on National Grid and Ofgem’s resolute insistence that distributed generation see the same cost signals as transmission-connected generators despite differences between the networks. In addition, TransmiT may result in changes to transmission charges for demand users (Triads) which would have a major earnings

impact on many distributed generators regardless of whether transmission generation charges are applied as well.

Ofgem's approval of EDCM could even prejudice the outcome of Project TransmiT, if cost signals between transmission and distribution are to be consistent. We would prefer this to be tackled in an open and transparent manner. It would be damaging to approve EDCM only to then launch a Significant Code Review (SCR) in light of implications from Project TransmiT.

- Ofgem should address the issues with Project TransmiT openly and transparently, and consider delaying approval of EDCM subject to findings from Project TransmiT.

Predictability

Scottish Renewables agrees with Ofgem when it states that “beyond the one-off change in charge, the ongoing stability and predictability of charges is important to customers, as it helps to reduce risk.” This is a key point for generators in our area. Scottish Renewables notes that sources of volatility are largely outside of the control of generators. The DNOs have not addressed these “exogenous” sources of volatility because they themselves cannot predict them. The DNOs have also done nothing to mitigate this volatility for generators – the ‘caps and collars’ on network use factors only apply to demand customers.

This is a major down side of the EDCM methodology. Scottish Renewables notes that unpredictability and a lack of ability to control costs was the reason that Ofgem rejected Locational BSUoS proposals.

- Ofgem should require the DNOs to mitigate volatility in generator charges *before* EDCM is implemented, or reject the proposals.

Transparency

As noted above the methodology is currently non-transparent (i.e. the model and tariffs cannot be published), and “highly complex” (which contributes to non-transparency). There is a real danger therefore that competition is hindered by virtue of the fact that only the DNOs can understand and model tariffs.

Ofgem also makes the assumption that the commonality of some aspects of the modelling across DNOs will increase transparency and accessibility of the model. Scottish Renewables is not convinced of this. The current GDUoS tariffs also have common aspects across the DNOs. Existing tariffs can be opaque, usually where DNOs apply a site-specific tariff. The Scottish DNOs do not currently apply these site-specific elements, or they are contained within a stated range.

Scottish Renewables notes that the new EDCM tariffs also have fixed elements that are outside of the EDCM power flow modelling. We also note that the proportion of these fixed costs is very high in both Scottish DNO areas. These are attributed in Ofgem's consultation to O&M and network rates on sole-use assets. We would like a clearer definition of what these assets constitute, and when they will be incorporated into a generator's final tariff – i.e. before or after a connection agreement is concluded. It would seem however that the proportion of site-specific elements not published in tariff schedules, and potentially remaining unknown until connection is well progressed, has increased in Scotland. We would therefore seriously question whether commonality has brought the benefits stated in the consultation.

- Ofgem's impact assessment should be re-worked to consider a more realistic comparison between the current GDUoS charges and the EDCM. This should include the EDCM's non-transparency and the high proportion of fixed costs in Scotland.

Consultation questions

Scottish Renewables has responded here to some other detailed issues not covered above, and that are raised in consultation questions.

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 have highlighted some key issues above.

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?

Our concerns are such that we feel, at the very least, that introduction should be delayed for resolution of some fundamental issues. We would argue that the non-transparency and predictability issues are serious enough to consider rejection on anti-competitive grounds.

In general, Scottish Renewables support measures which preserve the conditions under which an investment was made, and we refer you to our response to Ofgem's consultation on Pre-2005 DG, submitted by Scottish Renewables, Association of Electricity Producers, Renewable UK, Renewable Energy Association and the Combined Heat and Power Association².

² [Joint response](#) to Ofgem consultation on Pre 2005 DG submitted by Scottish Renewables, Association of Electricity Producers, Renewable UK, Renewable Energy Association and the Combined Heat and Power Association

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 agree that double charging should be avoided.

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

It is difficult to answer this question as we do not agree with the revenue recovery target.

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?

Scottish Renewables feels this needs more work to accurately reflect the real benefits. This may be a good candidate for the future governance process and/or a condition on the DNOs.

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?

Again we would need to spend more time looking at the evidence, but in general we feel credits should be aligned to real benefits, and be payable to groups of generators and/or generation/demand sites. This may include recognition of network benefits provided at times of low demand. For example, generators curtailing their output at times of low demand to help solve problems in network operation.

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

See comments at the start of this response.

Comments on the impact assessment

Scottish Renewables has made some suggestions in this response on how the impact assessment could be improved. In general we believe it is descriptive of the proposals with some assumptions made on the benefits it will bring which do not appear to be evidence-based. There is a cursory assessment of the impact on generator revenues, but Ofgem provides no information on assumed income per MWh, hence this is difficult to comment on.

Please do not hesitate to contact me should you wish to seek clarity or discuss any of the above points.

Yours sincerely

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