

Ynon Gablinger
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

4 July 2011

Dear Ynon

Consultation on electricity distribution charging methodologies: DNOs' proposals for the higher voltages

Thank you for the opportunity to comment on this consultation. This response should be regarded as a consolidated response on behalf of UK Power Networks' four distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, South Eastern Power Networks plc, and UK Power Networks (IDNO) Ltd. For convenience, the four licensees are collectively referred to as "UK Power Networks" throughout. This letter can be published on the Ofgem website.

UK Power Networks has fully supported the work undertaken by Ofgem and other key stakeholders to develop these proposals and welcomes Ofgem's initial assessment that the methodology that has been submitted largely meets the objectives that Ofgem set for the project. UK Power Networks believe that this methodology, as submitted, constitutes an effective starting position from which it can further evolve through the governance arrangement.

UK Power Networks has held numerous stakeholder workshops and meetings during the development of the EDCM and its impact on their businesses. These workshops indicate that whilst there is support for the benefits that a common methodology provides in terms of commonality and open governance, stakeholders continue to express concern about the initial price movement, the application of use of system charges to pre-2005 generators and the potential for volatile charges. UK Power Networks recognises that it will continue to be important to meet periodically with stakeholders to explain the impact of the methodology and ensure that it is updated to address any issues identified.

We have provided answers, where appropriate, to the consultation questions and those answers follow this letter. If you have any questions regarding this response please contact Oliver Day on 01293 657880.

Yours sincerely

Paul Measday
Regulation Manager
UK Power Networks

UK Power Networks' response to the questions set out in the consultation.

2. Overview

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 development of the methodology has often involved bringing together a very difficult blend of sometimes conflicting signals into a proposal which 'in the round' is suitable for approval. We feel that the issues raised by Ofgem highlight the difficulties that have been faced and we note that with most of the issues Ofgem agrees that the approach proposed is reasonable. We believe that this methodology, as submitted, constitutes an effective starting position from which it can further evolve through the governance arrangement.

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?

We hold the view that if Ofgem agrees that the proposed methodology better meets the charging objectives, then it should be implemented in full from April 2012.

Should Ofgem determine that some form of phasing-in of charges is appropriate, then we believe that this should only apply for those pre-2005 generators that are facing significant net increases in charges from a position where previously no ongoing charges (or generation credits) were made. In the event of any phasing-in, we consider that it should be completed within DPCR5.

3. Charging proposals for demand customers

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

Yes. UK Power Networks agrees with Ofgem's assessment that the approach for the revenue target is reasonable.

On a separate issue, we think that the arrangement where the revenue calculated for IDNOs' CDCM charges is conducted within the EDCM might well manifest itself as an iterative process between the EDCM and the CDCM. This iterative process would result in inconvenience in operation rather than compromise any principles defining whether the EDCM can be approved by the regulatory authority. We have raised this issue with other DNOs and have proposed that a change proposal is brought forward for the CDCM. This change would enable the implementation of the calculation of the IDNO revenue into the CDCM for the charges made, where the IDNO is connected to the EHV network, for use by its CDCM like end users. This change will enable the CDCM and EDCM to operate with a non-iterative input from the EDCM to the CDCM when setting charges.

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?

Yes. We support this principle due to the lack of appropriate diversity that can be applied to assets so close to customers' industrial and commercial premises. The example used in the consultation of comparing the diversity applied to domestic customers is not relevant, as diversity will already have been taken into consideration by the industrial and commercial site when sizing their connection requirements compared to their installed load requirements.

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?

We agree that it seems more appropriate to incorporate reactive power flows with the peak time demand to create a peak time capacity value, as this would represent a more accurate measure of the capacity used by the connection.

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 its charges?

We believe that the site specific approach is more appropriate – as it is more asset specific and therefore more cost reflective.

3.5. Do you think that the 'spare capacity' issue we identify should be addressed?

We agree that under normal circumstances spare capacity (after considering the capacity required for security of supply) is inherently there for the benefit of all users and the cost should be socialised. However, there are circumstances where excess capacity is the legacy of the customers' historic requirements and consequently there are situations where the capacity is stranded from use by other users. The current proposal is correct in allocating that cost to that user of the assets. We feel that if DNOs are expected to address this as a condition then Ofgem should provide a clear policy direction which states that the cost of unused capacity should be socialised across all users.

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

We agree with the concept that notional asset values should take into account all assets used, especially with power flow direction becoming increasingly complex because of more embedded generation connected. However, in order to consider this correctly the methodology would need to establish a method of allocating any HV network costs that might be used, as these are not currently modelled using the power flow approach.

Additional modelling at the HV network level would require a new 'sample modelling' approach to be developed or add significantly to the amount of work required in preparing charges, and require the use of additional volumes of data, some of which is currently not available. Consequently, we do not believe at this stage that the benefits of refined allocation of assets outweigh the additional work required.

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

We have not identified any issues at this stage.

4. Charging proposals for generation customers

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?

Yes, we agree. It is reasonable to accept Ofgem's approach to the generation revenue calculation as it provides an improved, fairer sizing of the generation target.

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

Yes, we agree with your assessment that the approach to scaling is reasonable as the approach follows Ofgem's policy driver of preserving the absolute difference between the locational signals.

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?

We do think it is appropriate to provide credits only at the super-red time band. The super-red time band is designed to represent the period when the network is at most stress and therefore in need of support by embedded generation. If there are other times when the support of generation should be given credit then we feel that the issue should be addressed by extending the super-red time band.

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 do not fully agree with Ofgem's proposal. The consultation report states: "ER P2/6 indicates that in certain situations, depending on outage event considered and the demand group, a proportion of intermittent generation could be taken into account for system security." However, the situations have not been detailed in the consultation and while some intermittent generator could have positive F-factor, these values are based on the generation with a high enough persistence value for the outage event. While this simplifies the derivation, and hence allows an F-factor to be calculated, it does not accurately reproduce an EHV connected intermittent generator's impact on a network. As a result it is difficult to justify credits based on a generalisation of P2/6 compared to our proposal, based on empirical data taken from a DNO over a specified time.

If Ofgem decides that credits should be paid then, as in question 4.3, we consider that it is appropriate to provide credits only at the super-red time band.

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?***

We feel that applying a collar is acceptable as the assets are sized for the larger generation needs. We agree that there may be some discrepancy where the same node feeds the requirement of a demand dominated site and a generator dominated site. This issue is linked to issue 5 (calculation of network use factors) of the consultation and we therefore believe that the discrepancy can be solved if the costs of spare capacity are socialised.

- ***Do you think that the methodology is appropriate for demand customers connected to generation dominated assets?***

We agree that the methodology is appropriate; however, the decision on issue 5 could provide further improvements as the costs of spare capacity are socialised.

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

We have not identified any at this stage.

5. Charging proposals for licensed distribution network operators (LDNOs)

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

We consider that with regard to LDNO charges, only DNO costs upstream of the point of connection should be considered when calculating the level of charges that should be applied. Any costs downstream of the point of connection should be incurred by and be the responsibility of the IDNO.

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

We view the current proposal as a reasonable step for establishing discounts for LDNOs connected at EHV network levels. We recognise that there is some scope to examine the provision of LDNO discounts based on costs which are not asset based. We would expect that application of these discounts would need to recognise the differences in indirect costs that DNOs have and that are not faced by IDNOs. In terms of exploring the development for this area of LDNO discounts, we would anticipate any such development to be channelled through the change proposal route.

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?

We feel it is important, where the data allows, that the cost allocated when calculating the discounts reflects the costs of the network provided by the DNO. This does not remove our concerns about the consequences of applying different discounts based on the same DNO/IDNO voltage boundary. At the time of our response to the ENA EDCM consultation we supported solving this problem using a weighted average approach. We now feel that applying an average approach could put DNOs at risk under competition law as we have demonstrated that we have information which would allow us to reflect our cost more appropriately with the 15 connection discounts. If Ofgem decides to make averaging of the discounts a condition of approval, then the grounds for doing this need to take into account other policy reasons and these need to outweigh the need of DNOs to reflect as far as possible the needs of competition law.

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

We believe that it is appropriate to cap discount percentages at 100%. While there may be exceptional circumstances where it is appropriate to have a discount percentage greater than 100% (and therefore the DNO would pay the LDNO use of system credits), we feel that if these circumstances arise then they should be dealt with as an exceptional event.

6. Common issues

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 sole use assets should attract the same scaling 'costs' as shared use assets. Sole use assets are often designed for the specific requirements – and life – of the connection and therefore have different ongoing requirements than shared use assets. We believe it is appropriate, if necessary, for charges for sole use assets to be reviewed under open governance.

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 feel that the proposal as submitted is appropriate and note that the detailed arrangements are being progressed through the Energy Networks Association Commercial Operations Group.

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

We agree. The proposed methodology implicitly passes the user's reactive power contribution to network cost to their charges by introducing the power factor to the marginal cost calculation.

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?**

At the current time we do not agree with this view. We are currently exploring this issue with DNOs, through the Energy Networks Association Work Stream, in order to understand the issue in more detail.

- **Do you consider that recovery from demand customers and recovery from generation customers should be considered separately?**

At the current time we do not agree with this view. We are currently exploring this issue with DNOs, through the Energy Networks Association Work Stream, in order to understand the issue in more detail.

6.5. Do you think the EDCM should include a mechanism to mitigate the potential volatility from network use factors?

We do not think that the EDCM should include a mechanism to mitigate the potential volatility from network use factors. If measures are brought forward to deal with spare capacity (as discussed in issue 5) then these should also have the consequence of reducing volatility of network use factors.