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Our Ref

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Direct Line

Date
28-Jun-11

Dear Andrew

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

Please find attached the Western Power Distribution response to the above document.

If you have any further queries, please do not hesitate to contact me.

Yours sincerely



ALISON SLEIGHTHOLM
Regulatory & Government Affairs Manager

Consultation Response

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?

The range of issues highlighted is comprehensive.

If a large number of conditions were placed then this could cause issues with the post implementation phase.

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?

Yes

Further to this; during the development of the EDCM it has become apparent that the proposed way in which LRIC marginal charges are being calculated is an improvement on the current WPD (South West and Wales) methodology. As such WPD would, if implementation is delayed by a considerable time, seek Ofgem approval to modifications to its existing methodology.

Chapter 3

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

We agree with Ofgem's assessment.

Question 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?

The use of maximum import capacity, rather than demand at system peak, is founded on the expectation that network assets at the voltage of connection are 'local' to the customer, and therefore strongly influenced by their behaviour.

The design of local assets is likely to reflect the customer's maximum import capacity (rather than their diversified capacity).

The use of maximum import capacity as a cost driver seems appropriate in these circumstances.

Question 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?

In calculating 'capacity for fixed adder' (kVA), a weighted sum of maximum import capacity (kVA) and historical capacity at system peak (kW) is used.

The resulting factor is therefore a hybrid of capacity measured in kVA (which includes reactive power) and that measured in kW (which does not).

The factor partially takes account of reactive power.

Question 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 agree with Ofgem's 'on balance' view that the DNOs have landed on this appropriately.

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

We agree with Ofgem's 'on balance' view that basing NUFs on analysis of the network under normal running conditions is a reasonable charging policy.

On the question of 'spare capacity' we believe it is very difficult in practice to determine what capacity is 'used' and what is 'spare'. Having said that we understand WSA have started work at looking at this.

We do not believe a condition should be placed on the DNOs to investigate this further, but would welcome any proposals made through open governance.

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

We do not believe it is right to take account of flows below the customer's voltage of connection. Although power flow analysis shows that such flows can arise in some circumstances, large charges driven by such flows would be very difficult for customers to accept.

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

No.

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 of assets? This issue aside, do you agree with our view that the approach to calculating a generation revenue target is reasonable?

We agree with Ofgem's proposal to modify the generation revenue target in order to avoid double charging for operations and maintenance costs on sole use of assets.

Given the already agreed policy position of OFGEM with respect to generation, it would seem reasonable to determine target revenue from price control elements.

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

Yes we agree with the assessment.

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?

Yes

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 believe that all generation should be rewarded to the extent that it provided support to the network. In practice this is probably best achieved by paying for units generated during the super red time band.

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?

Ofgem's suggested alternative appears to have merit, but would need checking out.

We believe the proposed methodology is appropriate for demand customers connected to generation dominated assets.

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

No

Chapter 5

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

Further views are not sought on this issue.

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

We believe this issue should be re-considered by the DNOs.

Question 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 believe this issue should be re-considered by the DNOs.

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

We see no reasons in principle why a LDNO that provides support to the network should not receive credits.

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?

The method of scaling in demand and generation are different; this could lead to perverse incentives if demand scaling was applied. As such sole use assets shouldn't attract scaling.

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?

Yes, but only when benefits to the network can be established.

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

Yes

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?

Separate sense checking of the branch recovery associated with charges and credits (or demand and generation nodes) may be appropriate, though the materiality of it would need to be investigated. However, if as a consequence, dissimilar scaling factors are to be determined for the charges and credits associated with the same branch (or the demand and generation charges) then this would lead to asymmetric charging for the branch. WPD believe the same scaling factor should be applicable to all charges/ credits associated with the same branch.

Question 6.5: 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.

If network use factors are cost reflective, measures to mitigate any volatility they cause may not be appropriate.