



To generators, distribution
network operators, suppliers and
other interested parties

*Promoting choice and value for
all gas and electricity customers*

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Dear colleague

Use of system charges for distributed generators (DG) – update on current thinking

In light of pending decisions in relation to pre-2005 DG charging and the EHV distribution charging methodology (EDCM), we are aware that stakeholders are particularly interested to know what use of system (UoS) charging arrangements will apply to them and on what terms from 1 April 2012. We have therefore decided to give an update of our current thinking now to provide information to stakeholders in a timely manner and to facilitate discussions of the issues by the industry so they can provide feedback to us in order to assist our decision making.

Following consideration of responses to our two consultations in May on UoS charges for pre-2005 DG¹ and on the EDCM², our thinking on how to take these matters forward has developed. We are now considering allowing a time limited exemption for pre-2005 DG from UoS charges. A time limited exemption would mean that, if certain criteria are satisfied, pre-2005 DG would not pay UoS charges until their exemption expires. In late September or early October we will consult on our rationale for our change in approach, the criteria which would determine the definition and implementation of the exemption and the duration of the exemption (if any). We are considering amongst other things whether the duration of any exemption should be related to the planned life of the DG, the connection assets used to connect the DG or something else.

In light of the need to resolve issues in relation to charging pre-2005 DG for UoS, we have decided that it will not be possible to introduce EDCM export charges for DG until April 2013 (or possibly later). This delay should enable stakeholders to understand the impact of our decision on pre-2005 charging prior to any implementation of the EDCM for DG. It should also allow us to assess and make a decision on whether the methodology (as it applies to DG) is appropriate given the treatment of pre-2005 DG. We do not consider that this approach would impact our decision on whether to approve and the subsequent timing of implementation of the EDCM for demand customers. This would mean that we would set out our decision on the methodology for calculating import charges in early September and make a decision on the methodology for calculating export charges once we have considered the issues relating to pre-2005 DG.

We are keen for feedback from stakeholders in relation to the potential impacts of the approach we are considering above and how a time limited exemption might be best

¹ See

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=684&refer=Networks/ElecDist/Policy/DistChrgs>

² See

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=687&refer=Networks/ElecDist/Policy/DistChrgs>

implemented. Whilst stakeholders will be able to respond to our consultation in September or October, we welcome feedback before then in order to help us focus on the key issues when drafting our consultation.

Please contact Nicholas Rubin if you have any questions in relation to this letter or would like to provide feedback on the impact and implementation of the approach we are considering. He can be contacted either on 020 7901 7176 or by email at nicholas.rubin@ofgem.gov.uk.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Rachel Fletcher', written over a light grey rectangular background.

Rachel Fletcher
Partner, Distribution