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Dear Guy

**Distribution use of system charging: way forward on higher voltage generation charging**

Thank you for the opportunity to comment on Ofgem's proposals with regard to Distribution use of system charging: way forward on higher voltage generation charging. Our detailed response to the questions asked in this consultation is included in the attachment.

Members can see that some improvements would be delivered via Options 2 - removing generation-led reinforcement charges, some elements of Option 3 – continue to calculate charges as if exempted generators are charged provided further work to stabilise the volatility of DUoS charges were carried out under Option 5 – revisit methodology. The scaling of generator charges does prove to be problematic.

If you would like to discuss any of these comments further please contact Barbara Vest, Head of Electricity Trading on 07736 107 020.

Yours sincerely

David Porter  
Chief Executive  
Association of Electricity Producers



## **AEP Response to Consultation Questions**

**Question 2.1:** Option 1 – Do you think that charges more or less appropriately reflect costs imposed by DG, following the removal of (some or all) pre-2005 DG?

We do not believe that option 1 reflects costs adequately and is therefore an unsuitable way forward. Members would like clarification regarding the content of table 2.1 – Impact of removal of pre-2005 generators on total recovery from post 2005 generators on Page 13. We found the table difficult to interpret, however agreed that the table highlights the shortcomings of both LRIC and FCP

**Question 2.2:** Option 2 – Do you think it is appropriate to include a generation-led reinforcement (locational) charge? What are the advantages and disadvantages of removing such a charge?

**Question 2.3:** Option 2 – This option may result in increased charges for generators currently in demand-dominated areas of the network, compared to those predicted under the EDCM. However, this could be matched by a decrease in potential volatility. What are your views on this potential trade off?

Most of us agreed that we could support this option and agreed that implementation of this option would require minimal changes to the EDCM model and may appropriately reflect the costs imposed by post 2005 generators. However there are areas for improvement.

We do not agree with the principle of scaling generator charges to achieve a set revenue target and so do not agree with removing the generator-led reinforcement charge, which has its own merits as discussed above, being accompanied by the blunting of the remaining cost reflective signals (listed in paragraph 2.27 of the consultation) by scaling to a set revenue target.

In addition there are some concerns about aligning Option 2 with the adopted EDCM treatment for demand charging. This is because generation and demand are not treated equally in either of the two charging methodologies. As such this introduces an unacceptable distortion with some CHP sites for example, facing both a high and new, generation charge alongside a significant increase in demand charges. This phenomenon appears on industrial sites (or CHP plants) that have both metered demand and generation that are using the same assets and are therefore able to see both possibilities in a change of behaviour. This appears to be a flaw in the charging methodologies as it signals that increasing demand in a 'generation rich zone' will not be credited and needs to be corrected. Double charging for sites that are both import and export must be avoided and therefore we should not see scaling of generation charges so that its export charge reflect only the demand reinforcement offset benefit.

**Question 2.4:** Option 3 – Do you think that the EDCM should continue to calculate charges as if all generators continue to be charged? What is the reasoning behind your response?

This appears to be least disruptive to the “current / previous” expectation and has the good feature that as fewer and fewer generators remain exempt from DUoS charges the amount of the generator target revenue paid by demand decreases, ensuring that effectively it never becomes significant.

The approach does however preserve three disadvantages of the expected methodology. Members are concerned about its volatility, the use of scaling to the target revenue, thus blunting cost reflectivity and potential double counting of costs due to a generator-led reinforcement charge and the reinforcement component of connection charges.

**Question 2.5:** Option 4 – Is it appropriate for EDCM generators to recover their share (based on their capacity relative to CDCM) of the DG incentive revenue (i.e. 80 per cent of generation-led reinforcement costs plus £1/kW incentive revenue)? If not, how should this incentive revenue be recovered?

This option does not address our core objection to any scaling of charges to recover a set revenue target.

**Question 2.6:** Option 5 – Do you think it is better to revisit the methodology more fundamentally?

YES some elements at least prior to implementation particularly those which could improve the stability and predictability of DUoS charges. However we believe that this work should be concluded relatively quickly to allow us to make the decision whether to opt in pre 2005 distribution connected generation into the new charging arrangements or chose an exemption.

**Question 2.7:** Option 5 – What cost signals do you think generators have the ability to respond to?

Generators can only decide whether to proceed with a project in a particular location or not. At a (we hope) much later time they can decide whether to continue operation of that project or close it. The implication of this is that it is important for the first decision that any charges are predictable at least for a period on which a decision to invest can be justified.

### **General**

**Question 2.8:** Do you have any other suggested modifications to the proposed methodology?

We believe that we have covered our suggestions comprehensively above.

**Question 2.9:** Which of the options (if any, or including a combination) do you think would enable the EDCM for DG charging to fulfil the Relevant Objectives set out in the licence after the removal of exempt generators? Why?

Members can see that some improvements would be delivered via Options 2, some elements of Option 3 provided further work to stabilise the volatility of DUoS charges were carried out under Option 5. The scaling of generator charges does prove to be problematic.

**Question 2.10:** What is the most appropriate way of redistributing the unrecovered revenue from exempted generators to other users of the network?

Demand will ultimately pay all the required revenue so is the most logical point of recovery.

**Question 3.1:** Do you think EDCM charges for non-exempted generators should apply from 1 April 2013? Why?

We believe, provided the improvements we mention above have been delivered, that it should be possible to do this in time for an April 2013 start

**Question 3.2:** Do you agree that the boundary change for generators should be deferred to coincide with the implementation of EDCM generator charging? Why?

Yes until an improved EDCM methodology has been developed.

**Question 3.3:** Do you have any comments on the suggested timetable for the reconsideration and subsequent approval of EDCM charges for DG?

Yes we need to be sure that sufficient, timely and robust information is made available to generators in order that an appropriate and thorough assessment of the impact of any improved EDCM can be made.