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Dear Guy

**Consultation on a time limited exemption from distribution charges for pre April 2005 connected generators**

Thank you for the opportunity to comment on Ofgem's proposals to grant a time limited exemption from Distribution Use of System charges for those generators who connected to the Distribution Network prior to April 2005. AEP, Renewable UK and Scottish Renewables members recognise the significant shift in Ofgem's views on this subject and appreciate the effort being made to accommodate our previously submitted suggestions for the ongoing and future treatment of affected generators.

Since receipt of your latest proposals the main debate within the Associations has been around the correct base value from which to begin negotiation of this time limited exemption. Much of our member debate focussed on the content of table 2.3 – Average investment and economic lives by technology type, with a preference emerging for the time limit to be linked to the generation asset life. Members noted that Ofgem has decided to use a 45 year period for distribution connection assets in the price control. In the current financial climate it is

important that any decisions made in this respect do not adversely impact a potential generation gap.

### **Other Issues to be addressed**

We would note that there are several issues which have not been addressed by the consultation and would suggest that further work may be required to assess:

- The issue of potential Pancaking. The application of both Generator DUoS and TNUoS charges and the linkage to Project Transmit, and
- The process for assessment of any DNO future changes with regard to the treatment of connections.

Members also believe that an industry workshop would be of value.

Our detailed response to the questions posed within your consultation is attached. If you require any further information please feel free to contact Barbara Vest, Head of Electricity Trading on 07736 107 020.

Yours sincerely

By Email

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Chief Executive  
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## **AEP, Renewable UK and Scottish Renewables Response to Consultation Questions**

**Question 1.1:** Do you agree with our proposal that by default CDCM generators eligible for an exemption should continue to be charged for UoS and that EDCM generators eligible for an exemption should continue be exempt from charges, unless either party chooses otherwise?

Yes provided generators have all relevant information made available to them in a timely manner in order that an appropriate assessment of the impact of the expected charge can be undertaken.

**Question 2.1:** Do you agree that a time-limited exemption should be set on an ex ante basis?

Yes unless there are contractual arrangements which clearly state otherwise

**Question 2.2:** Should an exemption be calculated from the date of a pre-2005 DG's connection, rather than some other date, such as from the date at which EDCM DG charges are introduced? Why?

Yes. There is no other date that is suitable as there was no expectation that generator DUoS charges would be introduced when pre April 2005 generators connected.

**Question 2.3:** Do you agree with our assessment of the options for determining the time limit for an exemption? Are there additional points of analysis we should bear in mind?

No. We believe that generators who connected to the Distribution Network pre 2005 and paid deep connection charges, paid those in the belief that the access and connection would be available for the life of the project. Discussion around the content of table 2.3 – Average investment and economic lives by technology type led members to a preference for the time limit to be linked to the generation asset life unless there was a specific term provided for within a contract which must take precedence. In addition members noted that Ofgem has decided to use a 45 year period for distribution connection assets in the price control. Further information behind the figures contained within table 2.3 would be useful.

**Question 2.4:** Are there better alternative options to those which we set out in this chapter and what would be their rationale?

Yes. Where there is a clear period specified in the original connection agreement this should determine the period of exemption. In all other cases the generation asset life should determine the length of the exemption.

**Question 2.5:** Do you agree with our initial thinking that a 20 year limit is appropriate? If not, what might be a more reasonable period of time that

balances the interests of pre-2005 DGs and the DNOs" other customers? Please explain the reasoning behind your answer and provide any associated evidence.

A 20 year limit is too low. We believe that there is a strong case to link the time limit to the generation asset life or, as referenced by Ofgem for the future Distribution Price Control, a 45 year period for distribution connection assets in the price control. A further consideration would be around calculating the exemption based upon generation technology type.

**Question 2.6:** We note that rather than pay a capitalised payment for O&M, some DG customers pay an annual charge for O&M. Where such a DG is eligible for an exemption, should they continue to pay their annual O&M charge?

Yes provided the O&M costs are cost reflective.

**Question 3.1:** In general are our proposals for implementing the exemption arrangements considered by this consultation appropriate? Is the level of detail we have provided sufficiently clear to make implementation workable? Please outline any areas where you think more clarity/detail is required and set out your suggestions for what might fill these gaps.

It is paramount that the information regarding indicative tariffs is completed in time to allow full disclosure to generators in order that a thorough assessment of the impact of those charges can be made in time to assess whether the generator wishes to go with a time limited exemption or to opt out.

**Question 3.2:** Is our approach to due process appropriate? Are there additional or alternative steps that should be incorporated? What is a reasonable period of time in which to complete the due process we propose?

The additional step to be included would be to determine whether there is a clear duration specified in an existing agreement that should override the default period. In terms of time periods we think that exempt generators should be able to opt in to paying DUoS charges at any time. As the actual EDCM figures will not be available until the end of next year, exempt generators that are opted in by default (CDCM) should have one year from the notice sent to them by the DNO in which to choose to opt out of liability for DUoS charges. We note that opting in is a one way action.

There is no access to working models that could assist in the assessment/calculation of the EDCM charges therefore early resolution is required to assist the assessment of the impact of these charges on generators. We would suggest at a minimum that indicative charges and an approved charging methodology should be available six months prior to the date from which charges should apply. This should ensure that Generators are able to give sufficient notice regarding their 'opt in' decision to Ofgem and the DNO. The aim

should be to complete the whole process by 1<sup>st</sup> April 2013 unless EDCM charges for generators are not to be introduced until a later date.

**Question 3.3:** Do you agree with our proposals for dispute resolution where DNOs and DGs cannot reach a settlement by 1 April 2012?

Ofgem would not generally be the appropriate body to resolve a dispute in such cases. We would suggest that this should be a matter for the Electricity Arbitration Association.

**Question 3.4:** Do you agree that the connection date should be the date from which the exemption is calculated, with the energisation date used if the connection date is not available? Or, would it be more straightforward simply to use the energisation date for all eligible DGs?

In general we would support this approach unless there is a contract which offers an alternate view. However where the paperwork does not exist then it is appropriate that a year should be agreed between the DNO and Generator.

**Question 3.5:** Similarly, should a pre-2005 customer with a mix of demand and generation requirements be eligible for an exemption from UoS charges?

Yes. We agree that a customer with demand and generation should, where the generation would be eligible for exemption, be entitled to an exemption for its export charges.

**Question 3.6:** Do you agree with our proposal that the introduction of UoS charges should happen from the beginning of the next charging year after the date on which an exemption ends?

Yes the proposed approach is a pragmatic and acceptable way forward.