

Guy Donald
Distribution Policy
Ofgem
9 Millbank
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5th December 2011,

Dear Guy,



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Consultation on Distribution Use of System Charging: a time-limited exemption for pre-2005 generators

Thank you for the opportunity to respond to this consultation. This is a non-confidential response on behalf of the Centrica Group excluding Centrica Storage.

We remain firmly of the opinion that the agreements we have in place at each of our affected stations (at Barry, Brigg, King's Lynn, Peterborough and Roosecote) provide ongoing rights to export power onto the relevant distribution networks.

Contracts were put in place for each of these stations at the time they connected to their respective networks that clearly set out the extent of these rights. None of these contracts make provision for further ongoing charges. In addition, the expectation at the time of contract agreement was that the large upfront charges paid at connection were in lieu of any ongoing use of system payments. As such the expectation was that these rights were for the 'life' of the generation station. The connection agreement must take precedence in any consideration of UoS charging exemptions.

We appreciate that an open-ended exemption will not facilitate the policy of exposing all DGs to UoS charges and would therefore support an approach whereby the exemption ends at the end date contained in the connection agreement where such an end date was agreed at the time of connection. Where no such end date exists in the connection agreement, then an ex-ante approach to setting an exemption time period based on the expected 'life' of the generation station would seem appropriate as this would reflect the rights that these generators believed they signed on to at the time of connection.

The 'life' of the generator should reflect the period that the generator would have expected to make use of the network which should be the economic life. The economic life should represent the useful operating life of the generator rather than any assumptions used in the DNO price controls.

We do not believe that the investment life is appropriate as this is likely to simply reflect the preferred financing arrangements of different companies rather than a technical assessment of the life of the asset being connected.

More detailed answers to your questions follow. I trust this response will be helpful to you in setting out our views. Please contact me if you would like to discuss any of the issues covered in this response in more detail.

Yours faithfully,

Andy Manning - Head of Transmission & Distribution

CHAPTER: One

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

Defaulting customers to a particular charging regime should be a last resort. DNOs should make every effort to contact affected customers and agree their enduring charging arrangements.

CHAPTER: Two

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

An ex ante basis will provide certainty and transparency to customers.

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?

The date of connection would seem to be the most logical date. We believe that the date of energisation is the most suitable definition for date of connection in these circumstances, as it will reflect when the generator started using the network.

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?

We believe that the connection agreement must take precedence in any consideration of use of system charging exemptions. Therefore where the connection agreement included a specified end date at the time of connection then it is appropriate that this date be used to cease any exemption.

In situations where the connection agreement did not include a specified end date at the time of connection then the generator will have legitimately expected exemption from use of system charges for the 'life' of their connection. In these circumstances we believe it could be appropriate, in order to support the policy of exposing all generators to use of system charging, to provide an ex ante exemption for a specified time frame that represents the 'life' of the generator.

In order to reflect the expectations at the time of the connection agreement, the 'life' of the generator should reflect the period that the generator would have expected to make use of the network which should be the economic life. The economic life should represent the useful operating life of the generator. In paragraph 2.42 Ofgem suggest that a measure of economic life could be the assumptions used in the DNO price controls. We believe this is not appropriate since the price control assumptions have historically been arrived at primarily to derive agreed cash flows for the DNOs. These time periods are subject to regulatory uncertainty and can change at each review and are not appropriate for the purpose of deriving exemption time periods.

We do not believe that the investment life is appropriate as this is likely to simply reflect the preferred financing arrangements of different companies (whether the generator or finance provider) rather than a technical assessment of the life of the asset being connected under

the connection agreement or the generators expectations of the life of the asset at the time of connection.

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

Ofgem have put forward a broad range of options.

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.

Ofgem have not provided any rationale for their proposed period of 20 years and as such the decision seems to be quite arbitrary.

Whilst we believe that a time limited exemption could be a more appropriate solution to the issue than complex refund arrangements, we do not believe that 20 years is the appropriate time period. The connection agreement, and the rights contained within it, must take precedence in any consideration of use of system charging exemptions. Therefore a more reasonable approach that is less likely to result in future disputes is to use the end date in the connection agreement where one exists, or, where no such end date exists, to use an ex ante time period that reflects the expected useful lifetime of the generation station based on the economic life of the generator. This approach better reflects the rights contained within the connection agreement.

We have five large generation stations that are affected by these proposals (at Barry, Brigg, King's Lynn, Peterborough and Roosecote). Each of these stations connected to their respective distribution networks prior to 2005, and paid large upfront fees to:

- connect and use the network;
- facilitate the operation and maintenance (O&M) of DNO owned assets; and
- have the right to export power onto the distribution network up to a specific maximum export capacity (in accordance with our connection and use of system agreements).

By paying these large upfront fees as required under the connection charging regime at the time, we believe that there is no cross subsidy of costs occurring between pre and post 2005 DG or between pre 2005 DG and demand customers since in each is properly paying for the costs that they all agreed to at the time of their connection. As there is no cross subsidy of costs involved we believe this adequately balances the interests of all DNO customers.

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 these arrangements are clearly provided for in their connection agreement.

CHAPTER: Three

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 sufficient to make our proposals clear and workable? Please outline any areas where you think more clarity/detail is required and set out your suggestions for what might fill these gaps.

Ofgem have set out a range of options, but then provided no rationale for arriving at their proposed 20 year limit. As stated above, the connection agreement, and the rights contained within it, must take precedence in any consideration of use of system charging exemptions. Any other solution is likely to lead to disputes.

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 approach suggested seems appropriate. Whilst suppliers can be of assistance in this task, the responsibility to liaise with pre-2005 DGs must lie with the DNO since any decision on choice of charging arrangements will ultimately be between the DNO and the customer with the current supplier merely a temporary go between. DNOs should ensure that they have contacted all pre-2005 DG (EDCM and CDCM) to receive positive confirmation of their chosen charging regime. Defaulting customers to a particular regime should be a last resort.

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

These seem appropriate.

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?

The connection date would seem to be the most logical date. We believe that the date of energisation is the most suitable definition for date of connection in these circumstances, as it will reflect when the generator started using the network.

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?

On the assumption that any reinforcement associated with the connection of the generation (whether the site is demand dominated or not) will have been paid for under the deep connection charging regime, the generator should be exempt.

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?

This seems appropriate.