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DUoS charges: way forward on higher voltage generation charging

DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It is heavily one of the most active offshore wind operators and investors in the United Kingdom with a total pipeline capacity of 2.8GW, of which around 220 MW connected at the distribution level in three DNO areas. Last year DONG Power UK has completed a new CCGT gas fired power station of 824MW output at Severn in South Wales.

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We welcome the significant amount of work that has been done by Ofgem and the DNOs to produce a single methodology, and also welcome Ofgem's willingness to amend the methodology following consultation. We have responded separately to your consultation on exemptions for pre-2005 generators.

As your analysis shows, granting an exemption to pre-2005 generators could have significant impacts on the remaining generators, both in terms of the size of the amount to be recovered and the volatility of charges. Our main objective is for charges to be transparent, fair, and stable. Please see below for our responses to the 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?

Ofgem's analysis suggests that this option would increase the amount recovered from post-2005 generators by 58% compared to the current EDCM proposals, and may increase the volatility of the UoS charges.

While we agree with the principle that a revenue target should only include those who will pay the charge, we believe that a 58% increase in the target for post-2005 generators is disproportional, and that the potential for increases in the volatility of charges is undesirable. Thus, we do not support Option 1.

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?

As we see it, a locational charge is only beneficial if it can influence the siting of generation at the time of investment. Once construction is completed, a locational signal is of little use as the generator cannot respond to it. Option 2 would remove the locational element that reflects a user's impact on the network, but would retain other locational elements such as connection charges, sole use asset charges, and locational credits. As such, generators still face a locational signal.

In principle Option 2 is attractive as it simplifies the calculation of charges, reduces volatility, and removes the risk of changes to a generator's charge as a result of activities of another generator that cannot be influenced or mitigated. However, we do not think it is appropriate to combine Options 2 and 1 (as suggested in paragraph 2.28) as we do believe that the 58% increase in revenue collected from post-2005 generators under Option 1 is proportional.

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?

As no information on the magnitudes of the changes in charges or the volatilities are presented in the consultation, it is difficult to assess the trade-off.

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?

Option 3 is attractive as it would require the least change from the current proposals, and would thus reduce uncertainty and risk of delaying the implementation of the measures.

The options is also attractive to post-2005 generators as the expected volatility as a result of entry and exit to and from a smaller base of charged generators would be reduced, as would the impact of pre-2005 generators entering once their exemption is expired.

Ofgem's assessment is that the impact on demand customers who would bear the additional cost would be small (possibly insignificant), which is preferable to Option 1 and the large increase in costs for post-2005 generators.

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 (ie 80 per cent of generation-led reinforcement costs plus £1/kW incentive revenue)?

We support the proposed amendment as it simplifies the revenue target calculation, and we do not believe that generators should pay for reinforcement costs that have not occurred.

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

The process for the current EDCM proposals has been long and thorough, and assuming that modifications can be proposed as required, we do not believe that a fundamental review of the methodology is appropriate.

Ofgem is right in noting that a new methodology may be needed in the future as the nature of the actors on the distribution network changes. The need for change should always be carefully weighed against the potential for disruption and volatility such change brings to existing network users.

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

See answer to question 2.2.

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

No.

Question 2.9: What is the most appropriate way of redistributing the unrecovered revenue from exempted generators to other users of the network?

As outlined by Ofgem in the consultation document, recovering the additional revenue from EDCM and CDCM demand customers would have a minimal impact on the individual charges faced by those customers. We believe that recovery from demand customers is the best solution.

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

We support April 2013 as a reasonable date for the introduction of EDCM charges. This should give Ofgem enough time to finalise the methodology and for the DNOs to provide its users with indicative charges in advance of the introduction. It also provides a year for dispute resolution in case DNOs and generators cannot come to an agreement regarding exemptions from the charges (assuming Ofgem's 1 April 2012 deadline for determining exemptions).

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?

No comment.

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

The proposed timetable seems appropriate. In particular, we welcome the proposal for the DNOs to provide indicative charges, followed by further consultation. This will help generators more fully assess the impacts of the proposed changes.

Yours sincerely



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