

Guy Donald  
Distribution Policy  
Ofgem  
9 Millbank  
London  
SW1P 3GE

5 December 2011

Dear Guy,

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

EDF Energy is one of the UK's largest energy companies. We provide 50% of the UK's low carbon generation. Our interests include nuclear, coal and gas-fired electricity generation, renewables, combined heat and power plants, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy welcomes the opportunity to respond to this consultation. We are happy for this letter to be published on the Ofgem website.

The proposals for the way forward for generators under the EDCM should be implemented in a way that ensures certainty and transparency and in a timely manner.

1st April 2013 is an appropriate start date as it enables stakeholders to be informed with reasonable notice.

Option 1 is our preferred option as it continues the cost reflective and locational signals which have been established within the EDCM methodology.

Our detailed response, where appropriate, to the consultation questions is set out in the attachment to this letter.

I hope you find these comments useful, however if you wish to discuss this response further please contact either of my colleagues Simon Vicary ([simon.vicary@edfenergy.com](mailto:simon.vicary@edfenergy.com) 0203 126 2168) or Julia Haughey ([julia.haughey@edfenergy.com](mailto:julia.haughey@edfenergy.com) 0203 126 2167).

Yours sincerely,



**Denis Linford**  
**Corporate Policy and Regulation Director**

## Attachment

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

#### **EDF Energy's response to your questions**

##### **CHAPTER: Two**

##### **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?**

Removing the Pre 2005 revenue does not seem unreasonable compared with the current methodology. Over time this would lead to reduced volatility when the exemption for Pre 2005 was withdrawn.

##### **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?**

The locational element of the methodology is supposed to send the right cost signals for connection to the network, and so removing this pricing signal is contradictory to the aim of the EDCM methodology.

##### **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?**

The trade off of higher charges for reduced volatility by removing locational signals goes against the intent of the EDCM methodology.

##### **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 option transfers the costs of exempt generation onto both EDCM and CDCM demand customers, reducing the impact on non-exempt generators but increasing the volatility for demand customers, albeit a supposed small impact on a large number of customers. The rationale for this option does not appear very robust or deal with the issues for calculating generation charges under the EDCM. Option 3 appears to be trying to achieve the minimum impact for generation customers to the detriment of demand customers.

##### **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)? If not, how should this incentive revenue be recovered?**

Relating the Revenue to generation led reinforcement costs seems more sensible than an incentive payment. The downside is that once again demand customers through the CDCM and EDCM pick up the additional costs.

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

In practice this may be dealt with through the open governance set in place for EDCM.

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

Generators are more likely to react to cost signals from the wholesale market rather than DUoS charges as these have greater impacts. Expecting all generators to have the flexibility to react to price signals is unfair as different generation reacts in different ways.

Cost signals in place at the time of connection and used for Investment cases are more likely to drive the generator rather than operational cost signals that may vary.

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

We have not identified any alternative modifications.

**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?**

Option 1 is our preferred way forward. It uses the agreed methodology of the EDCM and allows exempt generation to be brought into the charging methodology as their exemption is removed.

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

Our preferred way of redistributing the unrecovered revenue is by smearing the additional revenue across all customers that are currently being charged.

**CHAPTER: Three**

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

It was a price control decision that all generators should pay DUoS charges from 1 April 2010. Delaying the implementation to 1 April 2013 gives enough notice for the charges to be factored into business plans.

**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?**

It would make it simpler to change the boundary at the same time as the charging comes into force.

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

Whenever the EDCM for generation comes into effect it would be prudent to give as much notice as possible to stakeholders.

**EDF Energy**  
**December 2011**