

Guy Donald
Distribution Policy
Ofgem
9 Millbank
London
SW1P 3GE

5 December 2011

Dear Guy,

Distribution use of system charging: a time-limited exemption for pre-2005 generators.

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 proposal for a time limited exemption for pre-2005 Distributed Generators (DG) still appears to fulfil the overall charging policy objective while balancing the interests of customers and DG. It will hopefully avoid lengthy and complex disputes that would be likely if the refund approach was adopted, given a lack of clear information regarding the contractual arrangements of many pre-2005 DGs.

We also support the end date for a time limited exemption being set using an ex-ante approach, as it gives certainty of the duration of exemptions and will help stakeholders by giving more predictability of future charges.

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 0203 126 2168) or Julia Haughey (julia.haughey@edfenergy.com 0203 126 2167).

Yours sincerely,



Denis Linford
Corporate Policy and Regulation Director

Attachment

Distribution use of system charging: a time-limited exemption for pre-2005 generators

EDF Energy's response to your questions

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 to be exempt from charges, unless either party chooses otherwise?

The proposal is sensible and has the benefit of avoiding the complexity and potential for disputes associated with refund arrangements, particularly bearing in mind the difficulty in establishing the terms on which many pre-2005 DG connected to the distribution system.

The proposal also fulfils the overall policy objective of introducing UoS charges for all DG while maintaining certainty and transparency.

CHAPTER: Two

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

We agree that an ex ante approach should be used as it provides certainty to stakeholders about how long exemptions will last.

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 proposal for set period of exemption from the date of a pre-2005 DGs original connection is reasonable, but the energisation date may be more appropriate. The energisation date will be the earliest date the DG would have started to use 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?

The assessment of the options seems reasonable and it is important to consider the balance of interests between customers and pre-2005 DG. We have not identified any additional points.

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

We have not identified any better alternative 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.

The proposed 20 year limit for all pre-2005 DG is a simple and pragmatic option. However, it would be better to use the O&M period defined in connection agreements, where this is known.

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?

We consider it reasonable for a DG that is eligible for an exemption to continue to pay their annual O&M costs until their exemption expires. If they do not pay their O&M or the UoS then other customers and DGs would have to pick up this cost.

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.

Yes, the proposals for implementing the exemption arrangements are appropriate and the level of detail sufficient.

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 appears reasonable and we have not identified any additional or alternative steps. We hope that the proposed due process can be completed before April 2012.

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

Yes. In particular we consider it important that DNOs log charges that are subject to dispute and not levy them until it is resolved.

As a Supplier we have the contractual relationship with SVA registered DG and responsibility for collecting Use of System (UoS) charges on behalf of the DNO.

We do not think it is reasonable to put Suppliers in the middle of any dispute by charging them UoS charges for a DG in an ongoing dispute with a DNO. Therefore, we support Ofgem's proposal that DNOs should log up the value of those charges that they would bill pre-2005 DGs. When the dispute is resolved, the logged up charges can then be back-billed.

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?

We prefer the use of the energisation date for all eligible DGs as this is the date when they would have been able to start 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?

Where a single site has two EDCM tariffs, associated with import and export meter registrations, the sole use assets are allocated proportionally to the maximum import and export capacities.

With the decision to introduce EDCM demand charges only from 1 April 2012 this means that the export proportion for sole use assets will not be recovered from export eligible for an exemption. This differs from current methodologies that recover all the charges for sole use assets from the import.

We would like to see DNOs using appropriate derogations to ensure all of these costs continue to be recovered from import, while an exemption for export is in place, to avoid them being passed to other customers.

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?

We support the proposal to introduce the UoS charges at the start of the next charging year. This should provide more stability to UoS charges, as using any other dates could lead to additional mid-year rate changes for EDCM and CDCM customers.

**EDF Energy
December 2011**