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By email: [distributionpolicy@ofgem.gov.uk](mailto:distributionpolicy@ofgem.gov.uk)

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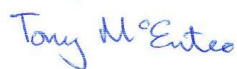
Dear Guy,

**Re: Electricity North West Response to Ofgem Consultation on the way forward for EDCM DG Charging.**

We have reviewed the consultation on EDCM charges for distributed generators and have provided our response to the questions in the appendix alongside this letter.

I would be happy to discuss any of our responses in more detail if necessary.

Yours sincerely

A handwritten signature in blue ink that reads "Tony McEntee".

Tony McEntee  
Head of Commercial Policy  
Electricity North West

## **Appendix 1 – Responses to EDCM Charges for Distributed Generation 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?*

We do not agree that the charges are cost reflective in option 1 following the removal of pre-2005 DG. The methodology submitted in April 2011 to Ofgem was based on a revenue target for generation that was derived from all EHV generators. The majority of generators are pre-2005 and removing these from the calculation of the revenue target means that a substantial amount of DG costs are excluded. As the target revenue is socialised, removing these costs from the calculation of the target revenue for generation makes the revenue target and therefore the individual DG charges less cost reflective.

**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?*

We have a number of concerns regarding the calculation of the locational element of the charge for generation and its cost reflectivity. The use of a 1% growth rate is a reasonable assumption for demand customers but can produce excessive charges for generation under some circumstances. This is particularly apparent where generators are sized to match the capacity of their connection. A further concern is the use of security factors to derive the locational charge for generators. The use of security factors for generation is questionable given that the P2/6 design standard is applicable to demand and not generation.

On balance, given these concerns about the cost reflectivity of the locational charge to generation, we believe this charge should not be applied. The issues identified with charge 2 do not apply to the locational charge 1 which is used to calculate

demand charges and we believe that this should continue to be used to calculate credits for generators.

**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?*

Unnecessary volatility creates uncertainty and makes it more difficult for generators to access finance. The majority of generation benefits distribution networks by reducing the need to reinforce and should not be discouraged because of excess volatility in Use of System charges. The price provided to DG needs to be stable and cost reflective but the LRIC element of the charge may not be cost reflective for generation for the reasons given in the answer to question 2.2.

**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?*

We would prefer this approach to option 1 as any scaling methodology needs a minimum number of customers to make it work. Under option 1 the removal of exempt generators leads to a revenue target that is derived from a small number of generators for most DNOs. This creates excessive volatility and an existing DGs charge can change dramatically when a large generators time limited exemption expires and it is included in the DG revenue target.

Paragraph 2.35 suggests excluding the notional £1/kW from exempt generators in the construction of the revenue target for generation. We believe that excluding this element from the calculation of the revenue target would distort the size of the revenue target and make option 4 less cost reflective. The principle that should be

applied under option 4 is to calculate the charges as if no generators had an exemption from charges and then to not apply the final charges to any generator that has a valid exemption.

**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?*

We believe that option 4 is a more cost reflective way to derive the generation revenue target. The DG incentive payment incentivises DNOs to connect DG as efficiently as possible. However the benefit of connecting DG to the distribution system accrues to demand customers through less reinforcement. It is therefore appropriate that generation customers should only pay for the reinforcement that they cause. If they connect in areas that do not create reinforcement then they should not incur the incentive payment under the DG.

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

We do not think that the methodology needs a fundamental review.

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

The use of system charge for generation will be factored into a generators calculation of avoidable cost to determine whether they should generate or not. If a DNO has a requirement for a generator to not run under certain conditions or at certain times this should be negotiated with the individual generator via a bilateral contract. This could be achieved via generation side management agreements.

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

We do not have any proposed modifications to the methodology that have not been considered in the consultation.

**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?*

We believe that option 4 combined with option 2 would meet the relevant objectives. This would be more cost reflective as the O&M element of the DG incentive would be socialised, DG would receive credit where it offsets demand reinforcement and pay an additional charge where it drives reinforcement.

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

The unrecovered revenue from exempt generators should be recovered from all customers.

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

We agree that EDCM charges for non-exempted generators should apply from April 2013. A start date of April 2013 will allow time for the issues raised in the Ofgem consultation to be considered and an amended methodology to be submitted if

necessary. Further delays in implementing the methodology creates unnecessary uncertainty for all stakeholders and is not beneficial to the industry as a whole.

***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?*

We agree that the boundary change should align with the implementation of EDCM generator charging. This ensures consistency for existing HVS generation customers until the EDCM DG charging methodology is agreed and has been consulted on.

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

We agree with the proposed timetable. However, it may need to be extended if option 5 is considered further.