

## **Details of Respondents**

Energy Power Resources Limited (“EPRL”) is a renewable energy generator which owns and operates five biomass power stations (113MW in total) in the UK, commissioned between 1992 and 2001.

CLP Envirogas Limited (“CLP”) is a related entity, generating renewable energy from landfill gas, operating from 25 sites across the UK with around 65MW of installed capacity. CLP’s sites have been developed between 1998 and 2011.

Between EPRL and CLP there are over 30 Connection and/or Use of System Agreements, with capital connection payments of close to £10m having been made to DNOs. The five EPRL power stations are classified as EDCM sites and the vast majority of CLP’s sites have received GDUoS credits under CDCM arrangements since 1<sup>st</sup> April 2010.

### **Options for EDCM generation charging**

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?

On the basis that Ofgem has assessed the 1<sup>st</sup> April 2011 EDCM submission as appropriate and cost reflective, then the resulting charges when removing a group of DGs should remain cost reflective. It should be noted that in practice should a DG (or group of DGs) cease to operate, then this would be the impact upon the charges for remaining DGs, we therefore assume that the resulting charges are cost reflective although this is more a question for Ofgem to determine.

The analysis in Table 2.1 does indicate the volatility of EDCM charges for DGs to the actions of others over which it has no control.

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 consultation document adequately documents the potential advantages and disadvantages of removing the generation-led reinforcement locational charge. On balance (based upon Ofgem’s assessment) we believe that the locational charge should be removed in order to potentially reduce volatility and the impact of other customers’ behaviour on charges. We recognise that this removes a significant pricing signal but note that other locational charge elements will remain.

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?

It is not possible to comment on this generic statement without relevant and specific examples; it clearly depends upon the level of increase between this and the current EDCM regime compared to the relative decrease in volatility.

This is a good example of why the consultation process has been so difficult, the implementation of EDCM will increase DG’s costs and volatility and feedback is requested on charges and volatility without knowing what the actual charge will be under EDCM proposals, what it will be if this locational elements is removed against an unknown level of volatility in either scenario. Once EDCM is implemented this will reflect the DG’s ongoing commercial position – inherent uncertainty and volatility.



**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 believe that the EDCM should continue to calculate charges as if all DGs will continue to be charged as this preserves the approach and there will be no impact as a result of exemptions expiring. However, we do not believe that revenue not recovered from exempted generators should be met by EDCM and CDCM demand customers; it would be fairer and have a less material impact if the shortfall was met by all customers (the group which presumably benefitted from the original capitalised O&M charge originally).

**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 (i.e. 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 the proposals outlined in option 4 are reasonable on the basis that Ofgem's analysis suggests that it may more accurately reflect the reinforcement costs imposed by generators.

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

No, EDCM charges have been developed over a significant period of time. Whilst it is useful to investigate and consult further on refinements, we see no merit in a more fundamental review.

The fundamental question is whether Ofgem believes that DGs should be charged for use of system. If so EDCM (assuming that it is assessed as cost reflective and possibly with some refinement) should proceed. Implementing EDCM will result in existing generators receiving cost signals they are unable to react to, inherent ongoing volatility and ongoing charges being impacted by the behaviour of others.

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

Generation projects generally represent high fixed cost capital assets which are immovable and exist to generate electricity. As a result, existing generators will be unable to respond to EDCM cost signals. New generation projects will be able to react to the initial cost signals (connection cost and indicative EDCM use of system charges) in selecting a location, although this will be just one of a number of factor, including planning constraints, ongoing operating and fuel costs and labour pool. However, once the location decision is made, they will be unable to react subsequently to varying ongoing charges (impacted by the behaviour of others) and will face inherent ongoing volatility.

**2.8: Do you have any other suggested modifications to propose?**

No.

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 license after the removal of exempt generators? Why?

Given the complexities of the subject and calculations, before finally opining on this it would be useful to see an impact assessment and the resulting indicative charges. However, on the basis of greater cost reflectivity, **theoretically** we believe that the following options should be adopted:

- Option 2 removing the generation-led reinforcement locational charge;
- Option 3, EDCM should continue to calculate charge as if all DGs will continue to be charged; and
- Option 4.

In respect of option 3, we believe that revenue not recovered from exempted generators should be met by all customers (the group which presumably benefitted from the original capitalised O&M charge).

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

Unrecovered revenue should generally be recovered from all customers (the group which presumably benefitted from the original capitalised O&M charge). Such a change would likely be immaterial to such a large number of customers.

### ***Implementation arrangements***

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

If Ofgem believes that cost reflective charging is important, they should be implemented at the earliest opportunity which is 1<sup>st</sup> April 2013. Given the significant length of time over which EDCM has been developed, subject to the options considered within the consultation, we are not convinced that further delay will produce any benefit in terms of acceptability, refinement or greater cost reflectivity.

In addition, at present post-2005 paid shallow connection costs and did not pay capitalised O&M charges and have not paid use of system charges subsequently, although these were likely to be introduced. On the other hand, pre-2005 generators paid deep connection charges and often capitalised O&M charges, so at one level not introducing EDCM is unfair on pre-2005 generators and this will remain the case the longer it is delayed.

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 with Ofgem's rationale for deferring the boundary change.

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

No comment.