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Dear Guy

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

Northern Powergrid Holdings Company is the UK parent company of Northern Powergrid (Northeast) Limited and Northern Powergrid (Yorkshire) plc.

We are writing to enclose our response to the above consultation. In summary Northern Powergrid believes that the proposals from Ofgem in this consultation are broadly sensible, Ofgem recognises that the outcome must leave network operators with the flexibility to deal appropriately with any cases that do not fit into the normal pattern. We urge Ofgem to consider issues that may be raised by the use of the connection date, given that it is possible that connections can be changed when generators are increased in size, thereby changing the circumstances of the original connection. It must be clear and transparent to customers how this issue is dealt with to avoid any misunderstandings in the future.

We note Ofgem's request for network operators to enter into dialogue with generation customers whose premises are connected to our network and we are happy to play our part in this dialogue: however, given the ongoing commercial relationship we would also urge Ofgem to seek the cooperation of the suppliers who may have information that will enable us to carry out this exercise.

If you would like further clarification of any aspects of our response, please contact me so that we can arrange to discuss these.

Yours sincerely



Harvey Jones
Head of Network Trading

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Annex 1

Chapter 1. Our decision to exempt pre-2005 DGs on a time-limited basis

Question 1.1: *Do you agree with our proposal that by default CDCM generators eligible for an exemption should continue to be charged for UoS and that EDCM generators eligible for an exemption should continue to be exempt from charges, unless either party chooses otherwise?*

We agree with Ofgem's proposal to allow exemptions on a time-limited basis.

Chapter 2. Our initial thinking on the duration of a time-limited exemption

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

We believe that any time-limited exemption should be on an ex-ante basis.

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 date of the pre-2005 DG's connection should be used as the baseline for the application of any exemption as it treats all eligible DG on an equal basis. However, we urge Ofgem to give further guidance in situations where connections have been modified at a later date to provide an export facility.

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?*

We agree with the assessment of the options.

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

We are not aware of 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.*

We believe that a fixed period is the appropriate way forward as it will be simple and easy to implement and will provide clarity for generation customers, suppliers and network operators.

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?*

DG customers should not continue to pay their annual O&M charges in these circumstances.

Chapter 3. Implementation arrangements

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 sufficiently clear to make implementation workable? Please outline any areas where you think more clarity/detail is required and set out your suggestions for what might fill these gaps.*

The level of detail provided is 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?

Whilst the network operators have contact details of the end-users following the signing of the connection agreement, these details have (in some cases) changed over time. We recommend that Ofgem seek to encourage suppliers (who have the contractual and billing relationship with the customer) to assist DNOs in ensuring that the correct customer details are provided. Suppliers have been rather reluctant to share customer information with distributors to date and Ofgem's assistance would be appreciated.

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

The issue of logged-up use of system charges would need to be considered in light of the over- or under-recovery mechanism for network operators. The act of "back-billing" the logged-up use of system charge to a supplier whose customer has had its pre-2005 DG issues resolved could mean that the DNO, through no fault of its own, becomes further under-recovered. . In these circumstances the DNO should be suitably protected from any adverse effects.

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?

Whereas the connection date can be identified from the connection agreement there may be instances where a long period of time passed between connection and energisation. In these circumstances the customer maybe unfairly penalised.

There may also be situations where the connection agreement has been amended to accommodate a larger connection (at the same site): in this case stakeholders would need to be clear as to which date prevailed for the purpose of the exemption (the first connection date or the modified connection date).

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?

In principle if the site is eligible for DG charges in the future it should be eligible for the exemption. However, consideration needs to be given to any existing demand site that had an export facility added at a later date where no work was required on the assets, i.e. no additional charge was made at the time that would warrant the exemption.

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 agree that the introduction of use of system charges should happen from the beginning of the next charging year after the date on which an exemption ends. If Ofgem made such a policy decision we would be supportive of it.